

INTERCO INCORPORATED

755,798 ADDITIONAL SHARES OF COMMON STOCK

MERGER OF DEVON APPAREL, INC.
INTO INTERCO-PA INCORPORATED

Number of Shares of Common
Stock issued as of
November 7, 1973:
10,046,335
(No treasury shares are held)

Number of Common Shareholders
of Record as of
November 7, 1973:
13,496

DESCRIPTION OF TRANSACTION

Devon Apparel, Inc. ("Devon") will be merged into INTERCO-PA INCORPORATED ("PA Inc."), a wholly-owned subsidiary of INTERCO INCORPORATED ("INTERCO") on or about January 11, 1974, pursuant to an Agreement and Plan of Reorganization dated November 13, 1973 ("Agreement").

INTERCO, through certain of its officers and employees and other agents, made an investigation and an evaluation of the financial condition, physical properties, assets, management and operation of Devon and determined that the fair value of the stock to be acquired is at least equal to the value of the shares of INTERCO Common Stock to be delivered in the merger. In the opinion of the management of INTERCO, the transaction is beneficial to INTERCO in that it will permit INTERCO's entry into the women's apparel manufacturing business. No officer, director or principal shareholder of INTERCO or its subsidiaries had any direct or indirect beneficial interest in Devon.

Of the total 755,798 shares to be listed hereby, a maximum of 725,000 shares will be issued to capitalize PA Inc. and a maximum of 30,798 shares will be reserved for issuance on the exercise of Devon stock options to be assumed by INTERCO. The Devon stock options were granted under two plans, a Qualified Stock Option Plan and a Nonstatutory Stock Option Plan. The Qualified Plan became effective on July 1, 1969 for a term of 10 years. The options granted under the plan are to be Qualified Stock Options within the meaning of Section 422 of Internal Revenue Code. The Non-statutory Stock Option Plan was adopted on May 14, 1973 for a term of 10 years. Options granted thereunder are intended to be options to which Section 421 of the Internal Revenue Code does not apply but Devon does not have any liability to the optionee of the option in fact qualifies as a "qualified stock option" as the term is used in Section 422 of the Code. The Qualified Plan covers grants to key employees and the Nonstatutory Plan covers grants to full-time officers, employees and sales agents. Under both plans options are to be granted at not less than the fair market value of Devon's common stock on the grant date and are cumulatively exercisable at the rate of 25% per year commencing after one year, and expire after five years in the case of qualified options and five years and thirty days in the case of nonstatutory options.

Attached hereto and incorporated herein by reference is a copy of Devon's proxy statement dated December 10, 1973 relating to this transaction.

The acquisition of Devon will be treated for accounting purposes as a "pooling of interests", in conformity with the requirements of Accounting Principles Board Opinion No. 16. This treatment

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BUSINESS INF. DEPT. SERIAL

has been reviewed and approved by Peat, Marwick, Mitchell & Co., INTERCO's independent certified public accountants, as being in accordance with generally accepted accounting principles.

RECENT DEVELOPMENTS

There have not been any important recent developments affecting the Company or its business, notice of which has not heretofore been released publicly.

AUTHORITY FOR ISSUANCE

The merger transaction, capitalization of PA Inc. and the issuance of the aforesaid 755,798 INTERCO Common Shares, pursuant thereto, were approved by the Board of Directors of INTERCO on November 13, 1973. The Board of Directors of PA Inc. and Devon approved the Agreement on November 13, 1973, with the shareholders of Devon approving same on January 10, 1974.

OPINION OF COUNSEL

There has been filed with the New York Stock Exchange, Inc. in support of this Application, the opinion of Ronald L. Aylward, INTERCO INCORPORATED, Ten Broadway, St. Louis, Missouri 63102, Vice-President and General Counsel of the Company, to the effect that: (a) INTERCO INCORPORATED and PA Inc. are corporations duly organized and legally existing under the laws of the State of Delaware; (b) the issuance of 755,798 additional shares of Common Stock, the listing of which application is hereby made, has been duly authorized; (c) such shares of Common Stock will be validly issued and outstanding and fully paid and nonassessable; (d) no personal liability will attach, by virtue of ownership of such shares, under the laws of the State of Delaware (the state of incorporation of INTERCO), or the State of Missouri (the state in which INTERCO's principal place of business is located); (e) the 30,798 shares of INTERCO Common Stock issuable upon exercise of the outstanding Devon Stock Options which are to be issued by INTERCO are exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) thereof.

A Registration Statement (Registration No. 2-49612) on Form S-14, covering said 725,000 shares of Common Stock was filed on November 15, 1973, with the Securities and Exchange Commission under the Securities Act of 1933, as amended and became effective on December 10, 1973.

INTERCO INCORPORATED

By DUANE A. PATTERSON,
Secretary

The New York Stock Exchange, Inc. hereby authorizes the listing, upon official notice of issuance, of 755,798 additional shares of Common Stock without par value of INTERCO INCORPORATED, in connection with the merger of INTERCO-PA Incorporated and Devon Apparel, Inc., all as hereinabove set forth, making a total of 11,723,864 shares of Common Stock authorized to be listed.

MERLE S. WICK, *Vice-President*
Division of Stock List

JAMES J. NEEDHAM, *Chairman of the Board*
New York Stock Exchange, Inc.

DEVON APPAREL, INC.

3300 Frankford Avenue
Philadelphia, Pennsylvania 19134
Tel. (215) 425-3701

December 10, 1973

TO OUR SHAREHOLDERS:

Your Board of Directors has unanimously approved an Agreement and Plan of Reorganization between Devon Apparel, Inc. ("Devon") and INTERCO INCORPORATED, a Delaware corporation ("INTERCO"). Attached is a Notice of Special Meeting of Shareholders of Devon to be held on January 10, 1974 to consider and vote upon the proposed transaction.

Under the proposed Plan of Reorganization, Devon would be merged with and into INTERCO-PA Incorporated, a Delaware corporation, which is a wholly owned subsidiary of INTERCO, and the Devon Common Stock will be exchanged for shares of the Common Stock of INTERCO. The exchange ratio will be based on the mean average New York Stock Exchange closing price of INTERCO Common Stock for the fifteen (15) trading days preceding the calendar week in which the vote of the Devon shareholders is taken. Said average closing price will be divided into \$24,000,000 to determine the number of shares of INTERCO Common Stock to be issued; however, the maximum and minimum number of INTERCO shares will be 725,000 and 600,000, respectively. Based on 2,019,526 shares of Devon Common Stock outstanding as of November 26, 1973, the exchange ratio will be within the range of 2.785 to 3.365 shares of Devon Common Stock for each share of INTERCO Common Stock (0.3590 to 0.2971 shares of INTERCO for one (1) share of Devon).

INTERCO is a publicly held corporation whose stock is listed and traded on the New York and Midwest Stock Exchanges. On December 5, 1973, the high and low prices for INTERCO Common Stock on the New York Stock Exchange were 26 $\frac{1}{8}$ and 25 $\frac{1}{4}$, respectively.

INTERCO and its subsidiaries are engaged in manufacturing shoes and wearing apparel, including many nationally advertised brands, and retailing consumer products. Information on the nature and extent of such operations is included in the attached Proxy Statement.

Your Board of Directors and management are of the opinion that the proposed reorganization is in the best interests of the shareholders of Devon, in that the professional and financial resources of INTERCO will assist in expanding Devon's operations and aid in the development of new operations. Thus, the consummation of the transaction will result in the ownership of a security in a company offering greater diversity and stability.

The within Proxy Statement is also deemed to constitute a Prospectus of INTERCO for the offer of its Common Stock to the shareholders of Devon upon the terms and conditions described therein, pursuant to the provisions of Rule 145 under the Securities Act of 1933.

As President of Devon, I recommend that you vote in favor of the proposed transaction.

Management cordially invites you to attend the Special Meeting of Shareholders. Whether or not you expect to attend the meeting in person, you are urged to sign, date and promptly return the enclosed proxy. A self-addressed envelope is enclosed for your convenience; no postage is required if mailed in the United States.

Cordially yours,

WILLIAM FORMAN
President

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION
PASSED UPON THE ACCURACY OR ADEQUACY OF THE PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Date of the within Proxy Statement is December 10, 1973

DEVON APPAREL, INC.
3300 Frankford Avenue
Philadelphia, Pennsylvania 19134

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD JANUARY 10, 1974

TO THE SHAREHOLDERS:

You are hereby notified that a Special Meeting of Shareholders of Devon Apparel, Inc. ("Devon") will be held at the offices of Blank, Rome, Klaus & Comisky, 1100 Four Penn Center Plaza, 16th and John F. Kennedy Boulevard, Philadelphia, Pennsylvania, on Thursday, January 10, 1974 at 10:30 A.M., Eastern Standard Time, for the following purposes:

1. To consider and vote upon a proposed Agreement and Plan of Reorganization dated as of November 13, 1973 and its related Agreement and Plan of Merger and the transaction contemplated thereby pursuant to which Devon will be merged with and into INTERCO-PA Incorporated, a Delaware corporation, a wholly owned subsidiary of INTERCO INCORPORATED, a Delaware corporation ("INTERCO"), whereunder shareholders of Devon will receive INTERCO Common Stock in exchange for the shares of Devon Common Stock held by them based upon the exchange formula set forth in the Proxy Statement accompanying this notice (a copy of the Agreement and Plan of Reorganization is set forth as Appendix A to the Proxy Statement).
2. To transact such other business that may properly come before the meeting or any adjournment or postponement thereof, including any matter relating to or incident to the foregoing.

The Board of Directors has fixed the close of business on November 26, 1973, as the record date for the meeting. Only shareholders of record at the close of business on that date will be entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

By Order of the Board of Directors,

STANLEY MATZKIN
Secretary

December 10, 1973

IMPORTANT: All shareholders are requested to date, fill in, sign and promptly return the enclosed proxy in the envelope accompanying this notice. Shareholders who attend the meeting may vote in person despite the fact that they have previously sent in their proxies.

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No person has been authorized to give any information or to make any representation, other than those contained in this Proxy Statement, in connection with the offer contained herein, and, if so given or made, such information or representation must not be relied upon as having been authorized. This Proxy Statement does not constitute an offer to sell or a solicitation of an offer to buy any securities that are covered by this Proxy Statement in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation. The delivery of this Proxy Statement and the sale of any securities hereunder shall not imply that the information contained herein is correct at any time subsequent to its date.

SUMMARY OF PROXY STATEMENT AND OTHER INFORMATION

The following is a summary of certain information set forth in this Proxy Statement. The summary does not purport to be complete and should be read in conjunction with the more complete information referred to and the Proxy Statement as a whole.

Proposed Transaction

The Special Meeting of Shareholders has been called to consider and vote upon a proposed Agreement and Plan of Reorganization pursuant to which Devon Apparel, Inc. ("Devon") would become a wholly-owned subsidiary of INTERCO INCORPORATED ("INTERCO") and the Devon Common Stock would be exchanged for Common Stock of INTERCO. The shares of Devon Common Stock will be converted to shares of INTERCO Common Stock based upon a formula related to the "Market Price" of INTERCO Common Stock. The Market Price will be the mean average per share closing price of INTERCO Common Stock on the New York Stock Exchange for the fifteen (15) trading days preceding the calendar week in which the vote of the Devon shareholders is taken. The total number of INTERCO shares to be issued will be determined by dividing \$24,000,000 by the Market Price, which number of INTERCO shares will be exchanged for the total number of outstanding shares of Devon Common Stock. The total number of shares of INTERCO Common Stock to be issued will not be less than 600,000 shares nor more than 725,000 shares, regardless of the results of the formula. The per share exchange ratio will be determined by dividing the total number of outstanding shares of Devon Common Stock into the total number of shares of INTERCO Common Stock to be issued. For example, if the Market Price of INTERCO Common Stock is \$35 and the total outstanding shares of Devon Common Stock are 2,019,526, then 685,714 shares of INTERCO Common Stock will be issued on the basis of one share of INTERCO Common Stock for each 2.9451 shares of Devon Common Stock (.3395 shares of INTERCO Common Stock for each share of Devon Common Stock). In the event the Market Price is \$33.10 or less, resulting in the maximum 725,000 shares of INTERCO Common Stock to be issued, the exchange ratio shall be one share of INTERCO Common Stock for each 2.785 shares of Devon Common Stock. Likewise, in the event the Market Price is \$40.00 or more, resulting in the minimum 600,000 shares of INTERCO Common Stock to be issued, the exchange ratio shall be one share of INTERCO Common Stock for each 3.365 shares of Devon Common Stock. There were, as of November 26, 1973, 2,019,526 shares of Devon Common Stock outstanding, but the outstanding shares may increase prior to Closing by reason of the exercise of outstanding Devon stock options. See DESCRIPTION OF AGREEMENTS.

Voting and Appraisal Rights

Holders of record of Devon Common Stock on November 26, 1973 are entitled to vote at the Special Meeting. The affirmative vote of a majority of the outstanding shares of Devon Common Stock is required for approval of the proposal, as well as the satisfaction of other conditions. See PROXY STATEMENT AND DESCRIPTION OF AGREEMENTS.

William Forman, President of Devon, beneficially owns 286,056 shares or 14.16% of the outstanding shares of Devon Common Stock and Stanley Matzkin, Executive Vice President and Secretary of Devon, beneficially owns 283,036 shares or 14.01% of the shares of Devon Common Stock. See DESCRIPTION OF DEVON COMMON STOCK.

There are no appraisal rights. See DESCRIPTION OF DEVON COMMON STOCK.

Federal Tax Consequences

Devon has received an opinion from the law firm of Blank, Rome, Klaus & Comisky that no taxable gain or loss will be recognized for Federal income tax purposes by Devon or its shareholders, except upon the sale of fractional share interests. See DESCRIPTION OF AGREEMENTS.

Business of Devon and INTERCO

Devon designs, manufactures and sells women's coordinated apparel, principally sweaters, slacks, skirts, vests, jackets and shirts. These apparel items are produced primarily from synthetic fibers and are sold nationally under the "Devon" and "Lady Devon" labels and under retail customers' private labels. See BUSINESS AND PROPERTIES OF DEVON AND DEVON CONSOLIDATED STATEMENT OF INCOME.

INTERCO is engaged principally in manufacturing shoes and wearing apparel and retailing of consumer products. For its fiscal year ended February 28, 1973, its net sales and net earnings were \$1,001,817,000 and \$39,122,000, respectively. See BUSINESS AND PROPERTIES OF INTERCO AND INTERCO CONSOLIDATED STATEMENT OF EARNINGS.

Market Prices

The Common Stock of INTERCO is listed on the New York and Midwest Stock Exchanges. The Common Stock of Devon is listed on the American Stock Exchange. The following table sets forth the high and low sales prices of the INTERCO Common Stock on the New York Stock Exchange and Devon Common Stock on the American Stock Exchange for the calendar periods indicated as compiled from published sources:

	INTERCO		DEVON*	
	High	Low	High	Low
1971				
First quarter	47	40¼	24¼	13¼
Second quarter	48½	44½	18¾	13¾
Third quarter	48¾	44	15⅞	9⅞
Fourth quarter	50	41	14⅞	6¾
1972				
First quarter	55¾	47½	12¾	9⅞
Second quarter	55½	46¼	14½	10½
Third quarter	49½	43¾	13½	11
Fourth quarter	52¼	43⅝	15⅝	10¼
1973				
First quarter	54	46	14⅞	10¼
Second quarter	46¼	33¾	11⅞	5
Third quarter	42½	35	9¾	5½

*All prices adjusted to reflect a 2-for-1 stock split declared in May 1971.

The last sales price on December 5, 1973 was \$25¼ per share for INTERCO and \$6⅞ for Devon.

Comparative Per Share Data

The following tabulations set forth earnings, dividends and book values per common share of INTERCO and Devon on historical and pro forma combined bases. The data is presented for the maximum and minimum number of INTERCO shares which may be issued pursuant to the terms of the Agreement and Plan of Reorganization. This data should be read in conjunction with the separate consolidated financial statements of INTERCO and Devon and related notes as well as the pro forma combined statements. See INDEX TO FINANCIAL STATEMENTS on page 36.

Effective exchange ratio:

The exchange ratio will be based on the mean average New York Stock Exchange closing price of INTERCO Common Stock for the fifteen (15) trading days preceding the calendar week in which the vote of the Devon shareholders is taken. Said average closing price will be divided into \$24,000,000 to determine the number of shares of INTERCO Common Stock to be issued; however, the maximum and minimum number of INTERCO shares will be 725,000 and 600,000, respectively. Based on 2,019,526 shares of Devon Common Stock outstanding as of November 26, 1973, the exchange ratio will be within the range of 2.785 to 3.365 shares of Devon Common Stock for each share of INTERCO Common Stock (0.3590 to 0.2971 shares of INTERCO for one (1) share of Devon).

	Earnings per Common Share					Six Months Ended August 31, 1973
	1968	1969	1970	1971	1972	
INTERCO:						
Fully diluted:						
Historical	\$2.66	\$2.70	\$2.85	\$3.18	\$3.56	\$1.75
Pro forma combined:						
Exchange of .3590 shares of INTERCO for 1 of Devon	2.61	2.66	2.87	3.10	3.59	1.81
Exchange of .2971 shares of INTERCO for 1 of Devon	2.64	2.69	2.90	3.14	3.63	1.83
Primary:						
Historical	3.12	3.13	3.30	3.46	3.72	1.80
Pro forma combined:						
Exchange of .3590 shares of INTERCO for 1 of Devon	3.02	3.05	3.29	3.35	3.73	1.86
Exchange of .2971 shares of INTERCO for 1 of Devon	<u>3.06</u>	<u>3.09</u>	<u>3.33</u>	<u>3.39</u>	<u>3.78</u>	<u>1.88</u>

	Year Ended					Twenty-Six Weeks Ended September 28, 1973
	March 31, 1969	March 31, 1970	April 2, 1971	March 31, 1972	March 30, 1973	
Devon:						
Historical	\$.61	\$.74	\$1.15	\$.73	\$1.42	\$.96
Pro forma combined (equivalent to 1 share of Devon):						
Exchange of .3590 shares of INTERCO for 1 of Devon:						
Fully diluted .....	.94	.95	1.03	1.11	1.29	.65
Primary	1.08	1.09	1.18	1.20	1.34	.67
Exchange of .2971 shares of INTERCO for 1 of Devon:						
Fully diluted .....	.78	.80	.86	.93	1.08	.54
Primary .....	.91	.92	.99	1.01	1.12	.56

Dividends per Common Share

For the Respective Periods Indicated Above

INTERCO — historical	\$.90	\$1.00	\$1.10	\$1.20	\$1.24	\$.64
Devon:						
Historical	—	—	—	—	—	.05*
Pro forma combined (equivalent to 1 share of Devon):						
Exchange of .3590 shares of INTERCO for 1 of Devon .....	.32	.36	.39	.43	.45	.23
Exchange of .2971 shares of INTERCO for 1 of Devon .....	.27	.30	.33	.36	.37	.19

Book Values per Common Share at August 31, 1973

INTERCO:	
Assuming liquidation of preferred stock	\$30.38
Assuming full conversion of preferred stock	30.46
Pro forma combined:	
Exchange of .3590 shares of INTERCO for 1 of Devon:	
Assuming liquidation of preferred stock	29.83
Assuming full conversion of preferred stock	29.93
Exchange of .2971 shares of INTERCO for 1 of Devon:	
Assuming liquidation of preferred stock	30.18
Assuming full conversion of preferred stock	30.26
Devon:	
Historical (September 28, 1973)	7.97
Pro forma combined (equivalent to 1 share of Devon):	
Exchange of .3590 shares of INTERCO for 1 of Devon:	
Assuming liquidation of INTERCO preferred stock	10.71
Assuming full conversion of INTERCO preferred stock	10.75
Exchange of .2971 shares of INTERCO for 1 of Devon:	
Assuming liquidation of INTERCO preferred stock	8.97
Assuming full conversion of INTERCO preferred stock	8.99

*A regular dividend of \$.05 per share and a special dividend of \$.03 per share were declared by Devon on November 13, 1973 and will be paid on December 17, 1973 to shareholders of record on November 26, 1973.

Future Operations of Devon

Messrs. William Forman and Stanley Matzkin, who are presently executives of Devon, are expected to continue in such positions pursuant to employment agreements to be delivered on or before the Closing Date. The agreements are for a three (3) year period at an annual compensation of \$83,000. See DESCRIPTION OF AGREEMENTS — FUTURE OPERATIONS OF DEVON.

Tradeability of INTERCO Shares

The INTERCO shares issued to holders of Devon shares at the time the merger becomes effective will be saleable by the recipients without further registration under the Securities Act of 1933 (the "Act"), except that "affiliates" of Devon will be deemed "underwriters" (as those terms are defined under the Act) of the INTERCO shares to be received by them in the merger unless their sales of INTERCO shares are within the volume and manner of sale limitations incorporated in Rule 145(d) under the Act. "Affiliates" of Devon in the proposed transaction will be William Forman and Stanley Matzkin. INTERCO has agreed to undertake registrations under the Securities Act of 1933 and applicable securities laws for the "Affiliates" to cover the shares received in the transaction. See Section 9.2 of Article IX of Appendix A. Additionally the "Affiliates" will not sell or in any other way reduce their risk relative to the common shares received until such time as financial results covering at least 30 days of post merger operations have been published.

PROXY STATEMENT

This Proxy Statement is furnished to shareholders of Devon Apparel, Inc. ("Devon") in connection with the solicitation of proxies by the management of Devon for the Special Meeting of Shareholders of Devon to be held on January 10, 1974 or any adjournments or postponements. The approximate date on which this Proxy Statement and form of Proxy will be first sent or given to shareholders is December 10, 1973. There will be presented at the meeting a proposal to approve and adopt an Agreement and Plan of Reorganization ("Reorganization Agreement") among INTERCO INCORPORATED ("INTERCO"), INTERCO's wholly-owned subsidiary, INTERCO-PA Incorporated ("PA Inc."), certain Warranting shareholders of Devon, and Devon and a related Agreement of Merger ("Merger Agreement") between PA Inc. and Devon. A copy of the Reorganization Agreement is attached to this Proxy Statement as Appendix A and a copy of the Merger Agreement is included in Appendix A as Exhibit A to the Reorganization Agreement, however, the other exhibits to the Reorganization Agreement and certain collateral agreements are excluded. The Reorganization Agreement and the Merger Agreement are sometimes collectively referred to as Agreements.

INTERCO and PA Inc. are Delaware corporations with their principal place of business at Ten Broadway, St. Louis, Missouri 63102. Their telephone number is (314) 231-1100.

Devon is a Pennsylvania corporation with its principal office at 3300 Frankford Avenue, Philadelphia, Pennsylvania 19134. Its telephone number is (215) 425-3701.

Terms of the Reorganization

The Reorganization Agreement provides that Devon will be merged with and into PA Inc., a corporation created for this purpose. PA Inc. will be the surviving corporation and will be a wholly-owned subsidiary of INTERCO. Immediately after the merger, PA Inc. will change its name to Devon Apparel, Inc. As a part of the merger, the Devon Common Stock will be exchanged for shares of Common Stock of INTERCO. The shares of Devon Common Stock will be converted to shares of INTERCO Common Stock based upon a formula related to the "Market Price" of INTERCO Common Stock. The Market Price will be the mean average per share closing price of INTERCO Common Stock on the New York Stock Exchange for the fifteen (15) trading days preceding the calendar week in which the vote of the Devon shareholders is taken. The total number of INTERCO shares to be issued will be determined by dividing \$24,000,000 by the Market Price, which number of INTERCO shares will be exchanged for the total number of outstanding shares of Devon Common Stock. The total number of shares of INTERCO Common Stock to be issued will not be less than 600,000 shares nor more than 725,000 shares, regardless of the results of the formula. The per share exchange ratio will be determined by dividing the total number of outstanding shares of Devon Common Stock into the total number of shares of INTERCO Common Stock to be issued. For example, if the Market Price of INTERCO Common Stock is \$35 and the total outstanding shares of Devon Common Stock are 2,019,526, then 685,714 shares of INTERCO Common Stock will be issued on the basis of one share of INTERCO Common Stock for each 2.9451 shares of Devon Common Stock (.3395 shares of INTERCO Common Stock for each share of Devon Common Stock). In the event the Market Price is \$33.10 or less, resulting in the maximum 725,000 shares of INTERCO Common Stock to be issued, the exchange ratio shall be one share of INTERCO Common Stock for each 2.785 shares of Devon Common Stock. Likewise, in the event the Market Price is \$40 or more, resulting in the minimum 600,000 shares of INTERCO Common Stock to be issued, the exchange ratio shall be one share of INTERCO Common Stock for each 3.365 shares of Devon Common Stock. There were, as of November 26, 1973, 2,019,526 shares of Devon Common Stock outstanding, but the outstanding shares may increase prior to Closing by reason of the exercise of outstanding Devon stock options. See DESCRIPTION OF AGREEMENTS.

Reasons for the Reorganization

The Boards of Directors of Devon and INTERCO, after careful consideration, have concluded that the proposed transaction will be advantageous to both companies and to their shareholders and have unanimously approved the Agreement. The proposed transaction was announced to the public on October 8, 1973.

Devon's directors are of the opinion that as a result of the proposed reorganization the professional and financial resources of INTERCO will assist in expanding Devon's operations and aid in the development of new operations. Thus, consummation of the transaction will result in the ownership of a security in a company offering greater diversity and stability.

From INTERCO's standpoint the transaction will permit INTERCO's entry into the women's popular priced sportswear and casual apparel industry.

Voting of Proxies

As of November 26, 1973, the record date, Devon had outstanding 2,019,526 common shares, each entitled to one vote. Only shareholders of record at the close of business on November 26, 1973 are entitled to notice of and to vote at the meeting.

Shares represented by properly executed management proxies will be voted. If a shareholder has specified how his shares are to be voted, they will be voted in accordance with such specifications. It is intended that shares represented by management proxies not marked to the contrary will be voted in favor of the adoption of the Agreements.

Proxies may be revoked at any time before a vote is taken by giving notice to Devon in writing or in open meeting.

The cost of solicitation of proxies is to be borne by Devon. In addition to the solicitation of proxies by mail, proxies may be solicited personally or by telephone, telegraph or teletype by officers and regular employees of Devon, if deemed necessary. Brokerage houses, nominees, fiduciaries, and other custodians will be requested to forward soliciting material to the beneficial owners of shares and will be reimbursed for their expenses. INTERCO will pay the cost of registration under the Securities Act of 1933, including the cost of printing this Proxy Statement.

The enclosed Proxy confers discretionary authority with respect to any and all of the following matters that may come before the meeting: (1) matters which Devon management does not know, a reasonable time before the Proxy solicitation, are to be presented at the meeting; (2) approval of the minutes of a prior meeting of shareholders, if such approval does not amount to ratification of the action taken at that meeting; (3) matters incident to the conduct of the meeting. In connection with such matters, the persons named in the enclosed Proxy will vote in accordance with their best judgment.

So far as Devon knows, there is no business to come before the meeting other than the proposed reorganization. If further business is properly brought before the meeting, the persons named in the Proxy intend to vote or act according to their best judgment on such business on behalf of the shareholders they represent.

Shareholder Quorum and Approval

The presence in person or by proxy of shareholders of Devon entitled to cast at least a majority of the votes which all shareholders are entitled to cast on a particular matter constitutes a quorum for the purpose of considering such matters. Each outstanding share of Devon Common Stock of record as of the close of business on November 26, 1973 will entitle the holder to one vote on all business of the meeting.

The proposed reorganization must receive the affirmative vote of the holders of the majority of the outstanding shares of Devon Common Stock. Under Delaware corporation law the Agreement is not required to be submitted to, or approved by, the stockholders of INTERCO, but may be effected by the approval of the Board of Directors of INTERCO, which approval has been given. The Board of Directors unanimously approved the transaction on November 13, 1973.

The Board of Directors of Devon recommends that the shareholders vote in favor of adoption of the proposed reorganization.

Principal Shareholders of Devon

The only persons owning of record or, to Devon's knowledge, beneficially more than 10% of Devon's outstanding voting securities are William Forman, President of Devon, and Stanley Matzkin, Executive Vice President and Secretary of Devon, who own of record and beneficially, as of November 26, 1973, 286,056 and 283,036 shares of Devon Common Stock, respectively, representing 14.16% and 14.01%, respectively, of the outstanding voting securities of Devon.

Finders Fee

A fee equal in amount to 1% of the value of the INTERCO shares issued in the merger will be paid by Devon conditioned upon the consummation of the merger and will be shared by Bache & Co., Incorporated, New York, New York, and Financo, Inc., Philadelphia, Pennsylvania, for services rendered in connection with the merger and for services rendered to Devon prior to the merger. The value of the INTERCO shares issued in the merger will be determined by multiplying the total number of shares issued by INTERCO in the merger by the mean average closing price of INTERCO Common Stock on the New York Stock Exchange for the fifteen (15) trading days preceding the calendar week in which the vote of Devon shareholders is taken. Robert Gallagher, a director of Devon, is President of Bayrock Advisors, Inc., a wholly owned subsidiary of Bache & Co., Incorporated.

Furnishing of Proxy Material

Devon and INTERCO have each supplied the material relating to themselves which is contained in this Proxy Statement.

DESCRIPTION OF AGREEMENTS

The following is a summary of certain material provisions of the Agreements. A copy of the Reorganization Agreement (including the Merger Agreement but excluding the other exhibits and schedules thereto and certain collateral agreements) is attached as Appendix A hereto, and reference is made to such copy for a complete statement of the provisions of the Agreements. The aforesaid exhibits have been filed with the Securities and Exchange Commission and may be inspected and copied at prescribed rates at the Commission's principal office at 500 North Capitol Street, N. W., Washington, D. C.

1. INTERCO will form a new wholly-owned subsidiary, PA Inc., for the purpose of merging Devon with and into PA Inc. which shall be the surviving corporation. After the merger, the name of PA Inc. will be changed to Devon Apparel, Inc. As a result of this merger, INTERCO will become the sole shareholder of Devon. (See Sections 1.1 of the Reorganization Agreement and Merger Agreement.)

2. All outstanding shares of Devon Common Stock will be converted into shares of INTERCO Common Stock based upon the formula set forth in Section 1.1 of the Reorganization Agreement.

3. If all of the conditions to the Closing of the transaction have been satisfied, the Closing will take place on January 11, 1974. If all of such conditions have not been satisfied by that date, the Closing will take place as soon thereafter as such conditions have been satisfied, but not later than February 28, 1974 without the consent of the Boards of Directors of Devon and INTERCO. The actual date of Closing is referred to herein as the Closing Date. The Reorganization Agreement may be terminated by mutual consent of the Boards of Directors of INTERCO and Devon whether before or after the vote of the Devon shareholders. (See Sections 1.3 and 11.3 of the Reorganization Agreement.)

4. Prior to the Closing Date Devon will conduct its operations according to its ordinary course of business and, without the prior written consent of INTERCO, will not, other than in the ordinary course of business, incur any indebtedness, acquire or dispose of any assets, enter into any contracts to be performed in more than 60 days, increase the compensation of its executives, other than normal salary increases and bonuses; or enter into any new employee benefit plan or increase the benefits under any such existing plan. In addition, Devon will not declare or pay any dividend on its Common Stock, (other than a regular dividend of \$0.05 per share and a special dividend of \$0.03 per share which may be declared and paid prior to Closing), or make any payment or distribution to shareholders or acquire for value any of their outstanding Common Stock. (See Article V of the Reorganization Agreement.)

5. It is a condition of each party's obligation under the Reorganization Agreement (see Appendix A hereto) that (a) the representations and warranties of the other party made in the Reorganization Agreement be true when made and at the Closing Date; (b) no material adverse change shall have taken place in the status of Devon and/or INTERCO which would make the merger inadvisable or impracticable in the opinion of either Board of Directors; (c) the parties shall have furnished to each other certain certificates, and opinions of counsel referred to in Articles VII and X of the Reorganization Agreement; (d) the INTERCO Common Stock to be issued and delivered to Devon shall have been approved for listing on the New York Stock Exchange, application for which listing was made on November 26, 1973; (e) no action shall be threatened or pending to prohibit the transaction or obtain damages or other relief in connection with the Agreements; (f) the Agreements and the transaction contemplated thereby shall have been approved by the shareholders of Devon; and (g) mutually satisfactory employment agreements shall have been entered into between INTERCO and Messrs. William Forman and Stanley Matzkin. William Forman and Stanley Matzkin have agreed to indemnify INTERCO and/or its subsidiaries for any substantial loss arising out of a breach of certain representations and warranties as set forth in Articles II and III of the Reorganization Agreement. (See Articles III, VII and XI of the Reorganization Agreement.)

There are certain further conditions to INTERCO's obligations under the Agreements, principally that the merger of PA Inc. and Devon shall have been approved as a "pooling of interests" for accounting purposes of INTERCO by its independent public accountants, and the New York Stock Exchange shall have accepted such accounting treatment. In addition, it is a condition to Devon's obligations under the Agreements that an opinion shall have been received from the law firm of Blank, Rome, Klaus & Comisky that the transaction contemplated by the Agreement constitutes a tax-free reorganization under Section 368(a)(1)(A) of the Internal Revenue Code of 1954, as amended. (See Articles VII and XI of the Reorganization Agreement.)

Any of these conditions or any other provisions of the Agreements may be waived or amended by mutual consent of the Boards of Directors of INTERCO and Devon, whether before or after the vote of the Devon shareholders, provided that any waiver or amendment effected after the vote of the Devon shareholders shall not, in the judgment of the Devon Board of Directors, affect materially and adversely the benefits of Devon's shareholders intended under the Agreements, unless such waiver or amendment is subsequently approved by the Devon shareholders. Any waiver or amendment of the provisions of the Reorganization Agreement also requires the approval of the warranting shareholders, William Forman and Stanley Matzkin, as set forth in Section 12.4 of the Reorganization Agreement. (See Section 12.4 of the Reorganization Agreement and Section 5.2 of the Merger Agreement.)

Federal Tax Consequences

Devon has received an opinion from the law firm of Blank, Rome, Klaus & Comisky to the effect that the transaction constitutes a tax-free reorganization under Section 368(a)(1)(A) of the Internal Revenue Code and that no taxable gain or loss will be recognized for Federal income tax purposes to Devon or its shareholders (except upon sale of fractional share interests); and that the basis of and holding period for the INTERCO Common Stock received by Devon's shareholders in the transaction will be the same as the basis and holding applicable to their shares of Devon Common Stock.

Manner of Converting Devon Shares — Treatment of Fractional Share Interests — Dividends

The stock transfer books of Devon will be closed on the Closing Date, and the holders of record of Devon Common Stock on that date will be the shareholders entitled to convert and exchange their shares for shares of INTERCO Common Stock. Until surrendered to Mercantile Trust Company N. A., as Conversion Agent, for exchange, certificates evidencing Devon's Common Stock will be deemed to evidence shares of INTERCO Common Stock on the exchange ratio basis. As promptly as practicable after the Closing Date Devon will notify its former shareholders to surrender their Devon share certificates to the Conversion Agent in exchange for INTERCO stock certificates. Frac-

tional shares of INTERCO Common Stock will not be issued. In lieu of the issuance of fractional shares of INTERCO Common Stock, the Conversion Agent shall pay to each former shareholder of Devon otherwise entitled to a fractional share of INTERCO Common Stock an amount in cash equal to the fair market value of any such fractional share of INTERCO Common Stock to which such shareholder would be entitled but for this provision. For purposes of such payment the fair market value shall be the same fraction of the last sale price of the INTERCO Common Stock on the New York Stock Exchange on the last day prior to the Closing Date on which any shares of INTERCO Common Stock were sold on such Exchange. (See Section 1.2 of the Reorganization Agreement and Section 3.3 of the Merger Agreement.)

Until such Devon certificates are surrendered, dividends and other distribution declared on the INTERCO Common Stock will be held by the Conversion Agent. Upon surrender of such certificates, however, any withheld dividends or other distribution will be paid, without interest. (See Section 1.2 of the Reorganization Agreement and Section 3.3 of the Merger Agreement.)

Future Operations of Devon

INTERCO presently intends to continue the operations of Devon as a subsidiary of INTERCO substantially as its operations are now being conducted, and with the continued employment of the present Devon personnel, assuming adequate individual performance. However, future operations may indicate the advisability of other arrangements. Messrs. William Forman and Stanley Matzkin, who are presently executives of Devon, are expected to continue in such positions pursuant to employment agreements to be delivered on or before the Closing Date. The agreements are for a three (3) year period at an annual compensation of \$83,000.

The Board of Directors of Devon after the merger will consist of William Forman and Stanley Matzkin, who are presently directors and officers of Devon, and Maurice R. Chambers, John K. Riedy and William L. Edwards, Jr., who are directors and officers of INTERCO.

CAPITALIZATION

The following table sets forth the capitalization of INTERCO and its subsidiaries at August 31, 1973 and Devon and its subsidiaries at September 28, 1973 and the pro forma combined capitalization after giving effect to the consummation of the proposed merger.

	Thousands of Dollars, Except Share Data		
	INTERCO	Devon	Pro Forma Combined
Long-Term Debt(a):			
4½% promissory installment notes, payable \$1,875,000 annually thru 1989 and balance in 1990	\$44,375	\$ —	\$44,375
6% promissory installment notes, payable \$750,000 annually, 1974-1975, \$1,250,000 annually, 1976-1979, and balance in 1980	8,625	—	8,625
4¾% obligation under long-term lease, payable in annual installments increasing from \$260,000 in 1974 to \$565,000 in 1991	7,165	—	7,165
Other debt at 2½% to 9¼% interest rates, payable in varying amounts through 1993	2,678	—	2,678
6½% mortgage notes payable in varying monthly installments through June 1991	—	916	916
5% mortgage notes payable in varying monthly installments through January 1988	—	869	869
Total long-term debt	<u>\$62,843</u>	<u>\$1,785</u>	<u>\$64,628</u>
Preferred Stock — Authorized preferred stock consists of 577,060 shares of first preferred (Series B) and 1,000,000 shares of second preferred (Series C) without par value. Such stock is summarized as follows:			
Series B — \$2.10 cumulative, with stated and involuntary liquidating value of \$40 per share; callable beginning in 1975 at \$42.10, decreasing to \$40.00 in 1985; convertible into 2 shares of common stock	14,971 Shs.	—	14,971 Shs.
Series C — \$5.25 cumulative, with stated and involuntary liquidating value of \$100 per share; callable beginning in 1975 at \$105.25, decreasing to \$100.00 in 1985; convertible into 3.0534 shares of common stock	158,359 Shs.	—	158,359 Shs.
Common Stock:			
\$7.50 stated value, 30,000,000 shares authorized	10,045,941 Shs.(b)	—	10,770,941 Shs.(b)(d)
\$.20 par value, 3,000,000 shares authorized	—	2,019,526 Shs.(c)	—

- (a) Includes portions due within one year. For additional information concerning long-term debt see Notes 3 and 4 of Notes to Consolidated Financial Statements of INTERCO INCORPORATED and Devon Apparel, Inc., respectively.
- (b) Excludes 888,052 shares reserved for issuance on exercise of stock options, issuance of contingent shares and conversion of preferred stock. See Note 5 of Notes to Consolidated Financial Statements of INTERCO INCORPORATED and subsidiaries.
- (c) Excludes 155,474 shares reserved for issuance on exercise of stock options. See Note 5 of Notes to Consolidated Financial Statements of Devon Apparel, Inc. INTERCO will assume the outstanding Devon stock options upon the merger being effective, adjusting the option price and substituting INTERCO Common Stock in accordance with the exchange formula referred to in the Agreement.
- (d) Assumes the issuance of 725,000 shares (the maximum number of shares issuable) pursuant to the consummation of the Reorganization Agreement and excludes the shares reserved for issuance on the exercise of stock options.

Reference is made to Note 6 to Consolidated Financial Statements of INTERCO INCORPORATED and to the "Business and Properties of Devon" — Properties for information with respect to obligations under long-term leases of real property.

INTERCO INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

The following consolidated statement of earnings of INTERCO INCORPORATED and subsidiaries, so far as it relates to the five years ended November 30, 1972 and the three months ended February 28, 1973, has been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report thereon appears elsewhere herein. With respect to the figures for the six months ended August 31, 1972 and 1973, which are unaudited, in the opinion of management all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results of operations for such interim periods have been included. The results for the six months ended August 31, 1973, are not necessarily indicative of the results to be expected for the full year. This statement should be read in conjunction with the other financial statements of INTERCO INCORPORATED and subsidiaries and related notes included elsewhere herein.

Thousands of Dollars, Except Share Data

	Year Ended November 30,					Three Months Ended February 28, 1973	Six Months Ended August 31,	
	1968	1969	1970	1971	1972		1972 (Un-audited)	1973 (Un-audited)
Sales and other income:								
Net sales (Note A)	\$695,030	\$736,125	\$807,081	\$883,388	\$981,121	\$252,525	\$488,712	\$525,214
Other income, net	5,031	6,084	6,859	7,500	8,009	1,979	3,931	4,548
	<u>700,061</u>	<u>742,209</u>	<u>813,940</u>	<u>890,888</u>	<u>989,130</u>	<u>254,504</u>	<u>492,643</u>	<u>529,762</u>
Deductions:								
Cost of sales	491,372	514,557	565,624	619,931	693,141	173,841	349,355	375,602
Selling, general and administrative expenses	154,291	169,623	184,752	202,290	218,094	58,263	108,617	115,874
Interest expense	4,901	5,606	6,590	5,315	4,784	929	2,456	2,419
Minority interests	493	390	347	322	366	113	168	205
	<u>651,057</u>	<u>690,176</u>	<u>757,313</u>	<u>827,858</u>	<u>916,385</u>	<u>233,146</u>	<u>460,596</u>	<u>494,100</u>
Earnings before income taxes	49,004	52,033	56,627	63,030	72,745	21,358	32,047	35,662
Income taxes (Note F)	22,752	25,435	28,147	30,165	35,048	10,225	15,526	17,050
Net earnings (Note A)	26,252	26,598	28,480	32,865	37,697	11,133	16,521	18,612
Preferred stock dividend requirements (Note B)	2,661	2,623	2,580	1,627	1,031	220	513	436
Net earnings applicable to common stock	<u>\$ 23,591</u>	<u>\$ 23,975</u>	<u>\$ 25,900</u>	<u>\$ 31,238</u>	<u>\$ 36,666</u>	<u>\$ 10,913</u>	<u>\$ 16,008</u>	<u>\$ 18,176</u>
Average common and common equivalent shares outstanding (Notes C and D):								
For fully diluted earnings per share	9,863,141	9,859,483	9,986,315	10,332,219	10,578,822	10,625,846	10,585,998	10,639,141
For primary earnings per share	7,572,431	7,660,969	7,853,427	9,032,077	9,863,262	10,090,728	9,881,051	10,089,670
Earnings per common share (Notes A and D):								
Fully diluted	\$2.66	\$2.70	\$2.85	\$3.18	\$3.56	\$1.05	\$1.56	\$1.75
Primary	3.12	3.13	3.30	3.46	3.72	1.08	1.62	1.80
Cash dividends per share of common stock	<u>.90</u>	<u>1.00</u>	<u>1.10</u>	<u>1.20</u>	<u>1.24</u>	<u>.32</u>	<u>.62</u>	<u>.64</u>

See accompanying notes.

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF EARNINGS

- (A) Net sales, net earnings, and earnings per common share as originally reported to stockholders are reconciled to amounts in the Consolidated Statement of Earnings in the following tabulation:

	Thousands of Dollars, Except Share Data				
	Year Ended November 30,				Six Months Ended
	1968	1969	1970	1971	August 31, 1972
					(Unaudited)
Net sales:					
Originally reported	\$669,456	\$706,098	\$777,886	\$847,393	\$486,775
Poolings of interests (Note E)	25,574	30,027	29,195	35,995	1,937
As restated	<u>\$695,030</u>	<u>\$736,125</u>	<u>\$807,081</u>	<u>\$883,388</u>	<u>\$488,712</u>
Net earnings:					
Originally reported	\$ 25,088	\$ 25,418	\$ 27,569	\$ 31,495	\$ 16,439
Poolings of interests (Note E)	1,164	1,180	911	1,370	82
As restated	<u>\$ 26,252</u>	<u>\$ 26,598</u>	<u>\$ 28,480</u>	<u>\$ 32,865</u>	<u>\$ 16,521</u>
Fully diluted earnings per common share (Note D):					
Originally reported	\$2.65	\$2.69	\$2.85	\$3.14	\$1.56
Poolings of interests	.01	.01	—	.04	—
As restated	<u>\$2.66</u>	<u>\$2.70</u>	<u>\$2.85</u>	<u>\$3.18</u>	<u>\$1.56</u>
Primary earnings per common share (Note D):					
Originally reported	\$3.12	\$3.14	\$3.31	\$3.42	\$1.62
Poolings of interests	—	(.01)	(.01)	.04	—
As restated	<u>\$3.12</u>	<u>\$3.13</u>	<u>\$3.30</u>	<u>\$3.46</u>	<u>\$1.62</u>

- (B) Preferred stock dividend requirements are provided based on outstanding preferred shares at the end of each month. Preferred shares issued during 1968 in a business combination accounted for as a pooling of interests have been included as if the shares were outstanding as of the beginning of the year.
- (C) The average number of common and common equivalent shares outstanding during each period includes the equivalent of the average number of common shares outstanding of companies acquired in business combinations accounted for as poolings of interests and gives effect to the two-for-one stock split in March, 1968.
- (D) Fully diluted earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, plus those common shares which would have been issued if conversion of all preferred stock had taken place at the beginning of each period. Common stock issuances based on profit performance and common stock options, the exercise of which would result in dilution of earnings per share, have been considered as the equivalent of common stock.
- Primary earnings per share are based on those shares included in the fully diluted earnings per share calculations, except that conversion of preferred stock has not been assumed. Net earnings for this computation were reduced by preferred stock dividend requirements.
- (E) Big Yank Corporation was acquired in 1972 and has been accounted for as a pooling of interests in the accompanying consolidated financial statements. Prior to December 1, 1969, the predecessor of Big Yank Corporation operated as a division of another company and the financial statements of INTERCO have been restated to include the operations of Big Yank for 1970 and 1971.
- (F) The following summarizes the income taxes for the respective periods presented. Investment tax credits are reflected as a reduction of Federal income taxes for the period in which qualified property is placed in service. Deferred compensation, depreciation, profit on installment sales and certain reserves are recognized for income tax purposes in years other than the years in which they are reported in the financial statements. Provision has been made for resulting deferred taxes and future tax benefits. In reported operating results prior to February 28, 1973, state and city income taxes were classified as operating expenses. It is the company's intent that the undistributed earnings of subsidiaries will be reinvested in the subsidiaries. Accordingly, no provision has been made for income taxes on such undistributed earnings.

	Thousands of Dollars							
	Year Ended November 30,					Three Months Ended February 28, 1973	Six Months Ended August 31,	
	1968	1969	1970	1971	1972		1972 (Un- audited)	1973 (Un- audited)
Current:								
Federal	\$21,143	\$22,930	\$25,387	\$27,851	\$31,650	\$10,645	\$13,824	\$14,946
State and city	842	1,061	1,787	1,755	2,760	959	1,239	1,386
Foreign (principally Canadian)	1,464	1,614	1,288	1,523	1,595	257	675	820
Investment tax credits, net	(605)	(275)	130	(255)	(472)	(105)	(160)	(272)
	<u>22,844</u>	<u>25,330</u>	<u>28,592</u>	<u>30,874</u>	<u>35,533</u>	<u>11,756</u>	<u>15,578</u>	<u>16,880</u>
Deferred	(92)	105	(445)	(709)	(485)	(1,531)	(52)	170
	<u>\$22,752</u>	<u>\$25,435</u>	<u>\$28,147</u>	<u>\$30,165</u>	<u>\$35,048</u>	<u>\$10,225</u>	<u>\$15,526</u>	<u>\$17,050</u>

- (G) Depreciation expense included in costs and expenses amounted to approximately \$7,128,000, \$8,045,000, \$8,727,000, \$9,495,000 and \$9,912,000 for the years 1968 through 1972, respectively; \$2,581,000 for the three months ended February 28, 1973; and \$5,151,000 and \$5,400,000 for the six months ended August 31, 1972 and 1973, respectively.

DEVON APPAREL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

The following consolidated statement of income of Devon Apparel, Inc., insofar as it relates to the five years ended March 30, 1973, has been examined by Clarence Rainess & Co., independent certified public accountants, whose report thereon appears elsewhere herein. Data for the twenty-six weeks ended September 29, 1972 and September 28, 1973 are unaudited but include, in the opinion of the Company, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of operating results for the unaudited interim periods. The results for the twenty-six weeks ended September 28, 1973 are not necessarily indicative of the results for the entire year. The statement should be read in conjunction with the other financial statements and notes thereto of Devon Apparel, Inc. and subsidiaries, included elsewhere herein.

	Year Ended					Twenty-Six Weeks Ended	
	March 31, 1969	March 31, 1970	April 2, 1971 (52 Weeks -Note B)	March 31, 1972 (52 Weeks)	March 30, 1973 (52 Weeks)	September 29, 1972 (Unaudited)	September 28, 1973 (Unaudited)
Net sales	\$17,225,153	\$22,652,888	\$29,981,894	\$30,791,519	\$40,799,602	\$20,159,878	\$25,435,825
Cost of sales	13,068,931	17,127,204	21,888,427	23,414,961	29,410,451	14,625,302	18,315,207
Gross profit	4,156,222	5,525,684	8,093,467	7,376,558	11,389,151	5,534,576	7,120,618
Selling, warehouse, general and administrative expenses — Note C	2,226,512	2,818,257	3,691,683	4,284,040	5,453,060	2,528,131	3,137,852
Interest	110,745	114,721	89,909	34,097	97,114	39,445	53,468
	2,337,257	2,932,978	3,781,592	4,318,137	5,550,174	2,567,576	3,191,320
Income before income taxes ..	1,818,965	2,592,706	4,311,875	3,058,421	5,838,977	2,967,000	3,929,298
Provision for income taxes — Note D:							
Federal:							
Currently payable	852,966	1,195,688	1,885,544	1,202,846	2,467,413	1,308,000	1,718,000
Deferred	—	18,553	45,155	54,887	77,763	—	22,500
State and local	113,122	171,889	304,990	339,993	432,092	236,000	259,800
	966,088	1,386,130	2,235,689	1,597,726	2,977,268	1,544,000	2,000,300
Net income	\$ 852,877	\$ 1,206,576	\$ 2,076,186	\$ 1,460,695	\$ 2,861,709	\$ 1,423,000	\$ 1,928,998
Average number of com- mon shares outstanding ...	1,400,000	1,625,000	1,800,516	2,012,439	2,018,576	2,018,426	2,019,326
Per share data — Note E:							
Earnings	\$.61	\$.74	\$1.15	\$.73	\$1.42	\$.71	\$.96
Cash dividends paid ...	—	—	—	—	—	—	\$.05

DEVON APPAREL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF INCOME

NOTE A — Principles of Consolidation

The consolidated statement of income for 1969 includes the operating results of the Company and its predecessors and affiliates including (i) two corporations whose outstanding capital shares were donated to the Company on April 1, 1969 and (ii) a partnership whose operating assets (inventories and property assets) were similarly donated, subject to certain liabilities, to the Company. With respect to such partnership, the statement of income reflects adjustments for federal income taxes and other expenses appropriate to the corporate form of business organization. Previously published statements for the five years ended March 30, 1973 have been recast to reflect the reclassification of state and local income taxes from selling, warehouse, general and administrative expenses to provision for income taxes.

NOTE B — Change in Fiscal Year

In fiscal 1971, the Company changed its fiscal year from one ending March 31, to a 52-53 week fiscal year. This change resulted in the addition of two days of shipments, aggregating approximately \$284,000 in sales, which had the effect of increasing income by approximately \$19,000 over the amount which otherwise would have been reported had the change in fiscal year not occurred. The effect on earnings per common share is negligible.

NOTE C — Pension Plans

The costs of the Company's pension plans referred to in Note 6 of the Notes to Consolidated Financial Statements were as follows: 1969 — \$3,177; 1970 — \$4,594; 1971 — \$38,903; 1972 — \$61,756; 1973 — \$69,774; September 29, 1972 — \$26,136 (Unaudited) and September 28, 1973 — \$30,542 (Unaudited).

NOTE D — Investment Tax Credits

Investment tax credits were insignificant from 1969 through 1971 and amounted to \$37,485 (\$.02 per share) in 1972; \$45,072 (\$.02 per share) in 1973; \$20,000 (\$.01 per share) at September 29, 1972 (Unaudited) and \$23,500 (\$.01 per share) at September 28, 1973 (Unaudited).

NOTE E — Per Share Data

The average number of shares outstanding for the year 1969 gives effect to a recapitalization effective April 2, 1969, whereby the then outstanding 5,000 capital shares, par value \$100, became 700,000 common shares, par value \$.20 with a concurrent credit to capital surplus of \$360,000. The number of shares for fiscal 1969 through 1972 retroactively reflect a 2 for 1 stock split declared in May 1971. Shares issuable upon assumed exercise of stock options under the treasury stock method are excluded because their dilutive effect is insignificant.

Dividends per share are based on the number of shares outstanding as of the record date.

PRO FORMA COMBINED STATEMENT OF EARNINGS

(Unaudited)

The following pro forma combined statement of earnings, prepared on a pooling of interests basis, presents the arithmetical combination of the consolidated statement of earnings of INTERCO INCORPORATED and subsidiaries for its five years ended November 30, 1972 and six months ended August 31, 1973, with the consolidated statement of income of Devon Apparel, Inc. and subsidiaries for its five years ended March 30, 1973 and twenty-six weeks ended September 28, 1973. Intercompany sales, although not material, have been eliminated. The financial statements of the two companies, including the notes thereto appearing elsewhere herein, should be read in conjunction with this statement.

	Thousands of Dollars					Six Months Ended in 1973
	1968	1969	1970	1971	1972	
Sales and other income:						
Net sales	\$712,255	\$758,778	\$837,063	\$914,180	\$1,021,888	\$550,628
Other income, net	5,031	6,084	6,859	7,500	8,009	4,548
	<u>717,286</u>	<u>764,862</u>	<u>843,922</u>	<u>921,680</u>	<u>1,029,897</u>	<u>555,176</u>
Deductions:						
Cost of sales	504,441	531,684	587,512	643,346	722,519	393,895
Selling, general and administrative expense	156,517	172,441	188,444	206,574	223,547	119,012
Interest expense	5,012	5,721	6,680	5,349	4,881	2,473
Minority interests	493	390	347	322	366	205
	<u>666,463</u>	<u>710,236</u>	<u>782,983</u>	<u>855,591</u>	<u>951,313</u>	<u>515,585</u>
Earnings before income taxes	50,823	54,626	60,939	66,089	78,584	39,591
Income taxes	23,718	26,821	30,383	31,763	38,025	19,050
Net earnings	27,105	27,805	30,556	34,326	40,559	20,541
Preferred stock dividend requirements	2,661	2,623	2,580	1,627	1,031	436
Net earnings applicable to common stock	<u>\$ 24,444</u>	<u>\$ 25,182</u>	<u>\$ 27,976</u>	<u>\$ 32,699</u>	<u>\$ 39,528</u>	<u>\$ 20,105</u>

See "Comparative Per Share Data" for pro forma combined earnings per common share calculations.

PRO FORMA CONDENSED COMBINED BALANCE SHEET

(Unaudited)

The following balance sheet combines the consolidated balance sheet of INTERCO INCORPORATED and subsidiaries at August 31, 1973 and the consolidated balance sheet of Devon Apparel, Inc. and subsidiaries at September 28, 1973 and gives effect to the assumptions set forth in the note below. The pro forma condensed combined balance sheet should be read in conjunction with the respective financial statements and notes thereto of the constituent companies included elsewhere herein.

	Thousands of Dollars			
	INTERCO	Devon	Pro Forma Adjustments Add (Deduct)	Pro Forma Combined
Assets				
Current assets:				
Cash and short-term investments	\$ 15,672	\$ 1,191	\$ —	\$ 16,863
Accounts receivable, net	147,223	7,854		155,077
Inventories	226,337	8,306		234,643
Prepaid expenses	2,625	453		3,078
Future income tax benefits	2,033	—		2,033
Total current assets	393,890	17,804	—	411,694
Other assets:				
Future income tax benefits	2,552			2,552
Excess of investment over equity in subsidiaries at acquisition, net of amortization	9,756			9,756
Sundry investments and other assets	5,928	105		6,033
Total other assets	18,236	105	—	18,341
Property, plant and equipment, net	88,766	4,766		93,532
	<u>\$500,892</u>	<u>\$22,675</u>	<u>\$ —</u>	<u>\$523,567</u>
Liabilities and Stockholders' Equity				
Current liabilities:				
Notes payable	\$ 11,836	\$ —	\$ —	\$ 11,836
Current maturities of long-term debt	3,527	74		3,601
Accounts payable and accrued expenses	86,146	4,121		90,267
Income taxes	6,551	461		7,012
Total current liabilities	108,060	4,656	—	112,716
Other liabilities:				
Long-term debt, less current maturities	59,316	1,711		61,027
Deferred compensation and other deferred liabilities	9,005	218		9,223
Minority interests in subsidiaries	2,861	—		2,861
Total other liabilities	71,182	1,929	—	73,111
Stockholders' equity:				
Preferred stock	16,435	—	—	16,435
Common stock	75,344	404	5,034	80,782
Capital surplus	42,563	4,925	(5,034)	42,454
Retained earnings	187,308	10,761	—	198,069
Total stockholders' equity	321,650	16,090	—	337,740
	<u>\$500,892</u>	<u>\$22,675</u>	<u>\$ —</u>	<u>\$523,567</u>

Note — The pro forma condensed combined balance sheet gives effect to the issuance of 725,000 shares of INTERCO common stock (the maximum number of shares issuable) in connection with the consummation of the proposed transaction as a pooling of interests.

BUSINESS AND PROPERTIES OF INTERCO

INTERCO INCORPORATED (the "Company") is a manufacturer of footwear and apparel and a merchandiser of various popular priced consumer goods through retail store groups. Until the early 1960's the Company was principally a manufacturer and distributor of footwear. Since that time INTERCO has diversified its operations into general retail merchandising and apparel manufacturing. In 1966, the Company changed its name from International Shoe Company to INTERCO INCORPORATED to reflect the changing character of its business. Sales of footwear represented approximately 70% of net sales reported in that year (before restatement for poolings of interests) as compared to 44% (after restatement for poolings of interests) in the fiscal year ended November 30, 1972 (*Note). The following table sets forth for each of the Company's three major areas of business, for the periods indicated, the approximate amounts and percentages of net sales and earnings before income taxes and corporate headquarters expense, including interest costs (all dollar amounts shown in thousands):

	Year Ended November 30											
	1968				1969				1970			
	Sales	%	Earnings	%	Sales	%	Earnings	%	Sales	%	Earnings	%
Apparel manufacturing	\$136,247	20%	\$ 8,512	16%	\$143,093	19%	\$ 9,596	17%	\$178,383	22%	\$13,468	21%
General retail merchandising	187,549	27	11,488	21	219,105	30	15,081	26	248,784	31	15,891	25
Footwear manufacturing and retailing	371,234	53	34,748	63	373,927	51	32,801	57	379,914	47	33,904	54
	<u>\$695,030</u>	<u>100%</u>	<u>\$54,748</u>	<u>100%</u>	<u>\$736,125</u>	<u>100%</u>	<u>\$57,478</u>	<u>100%</u>	<u>\$807,081</u>	<u>100%</u>	<u>\$63,263</u>	<u>100%</u>

	Year Ended November 30							
	1971				1972			
	Sales	%	Earnings	%	Sales	%	Earnings	%
Apparel manufacturing	\$194,768	22%	\$16,376	24%	\$221,155	23%	\$21,099	27%
General retail merchandising	299,053	34	16,438	24	327,487	33	15,777	21
Footwear manufacturing and retailing	389,567	44	36,237	52	432,479	44	40,511	52
	<u>\$883,388</u>	<u>100%</u>	<u>\$69,051</u>	<u>100%</u>	<u>\$981,121</u>	<u>100%</u>	<u>\$77,387</u>	<u>100%</u>

	Three Months Ended				Six Months Ended August 31							
	February 28, 1973				1972				1973			
	Sales	%	Earnings	%	Sales	%	Earnings	%	Sales	%	Earnings	%
Apparel manufacturing	\$ 46,353	18%	\$ 6,379	27%	\$115,915	24%	\$11,143	29%	\$118,286	23%	\$12,049	29%
General retail merchandising	88,357	35	6,081	25	161,382	33	7,533	20	174,126	33	10,076	25
Footwear manufacturing and retailing	117,815	47	11,390	48	211,415	43	19,127	51	232,802	44	18,572	46
	<u>\$252,525</u>	<u>100%</u>	<u>\$23,850</u>	<u>100%</u>	<u>\$488,712</u>	<u>100%</u>	<u>\$37,803</u>	<u>100%</u>	<u>\$525,214</u>	<u>100%</u>	<u>\$40,697</u>	<u>100%</u>

INTERCO is a major manufacturer and wholesaler of footwear in the United States, Canada and Australia. About 85% of the sales of shoes manufactured by INTERCO are currently made to independent retailers and department stores and the balance is made to the Company's retail stores. INTERCO's general retail merchandising business is conducted through 579 stores located throughout the United States, including junior and full-line department stores, home improvement and hardware supermarts, and convenience-discount retail outlets. Over half of the Company's apparel sales is of a broad line of men's and boys' casual wear which is sold to retailers under brand name. The balance consists principally of jeans and leisure clothing sold to the retail trade under private labels.

(*NOTE) On December 11, 1972 the fiscal year of INTERCO was changed so as to end on the last day of February instead of the last day of November.

The Company's various operations are conducted on a substantially autonomous basis supported by a corporate management staff located in St. Louis. Representatives of the major operating groups meet regularly with corporate management to control and plan the operations of the Company. These operations are described below in order of their group contribution to sales in the Company's last fiscal year: footwear manufacturing and retailing; general retail merchandising; and apparel manufacturing.

On January 31, 1974 United Shirt Distributors, Inc. ("United") of Detroit, Michigan, a Detroit Stock Exchange Company, is scheduled to be merged into a subsidiary of the Company on an exchange of stock basis. The exchange ratio will be based on the mean average New York Stock Exchange closing price of INTERCO Common Stock for ten (10) trading days preceding the calendar week in which the vote of the United shareholders is taken. Said average closing price will be divided into \$4,280,000 to determine the number of shares of INTERCO Common Stock to be issued, however, the maximum and minimum number of INTERCO shares will be 142,667 and 112,652, respectively. Based on 290,078 shares of United Common Stock outstanding as of December 10, 1973, the exchange ratio will be within the range of 2.0332 to 2.5750 shares of United Common Stock for each share of INTERCO Common Stock (0.4918 to 0.3883 shares of INTERCO for one (1) share of United). United's net sales in the fiscal year ended January 31, 1973, were \$8.75 million and net earnings were \$490,113 as compared to \$7.4 million in net sales and \$301,870 in net earnings in the fiscal year ended January 31, 1972. United's net sales for the nine months ended October 31, 1973 were \$6.95 million and net earnings were \$372,336 as compared to \$5.52 million in net sales and \$204,521 in net earnings for the nine months ended October 31, 1972. At October 31, 1973, stockholder's equity in United amounted to \$2,969,401 or \$10.24 per share.

Footwear Manufacturing and Retailing

INTERCO has been engaged in the manufacture and sale of footwear since 1911 and has been the leading producer, in terms of dollar sales, of footwear in the United States and Canada for many years. INTERCO manufactures, wholesales, and retails men's, women's and children's footwear in most major price categories. INTERCO also sells, at wholesale and retail, footwear manufactured by others. Approximately 15% of the sales of shoes manufactured by INTERCO are sold through its own retail outlets.

The major brand names under which the Company's shoes are sold are:

<u>United States</u>			<u>Canada</u>			<u>Australia</u>
<u>Men's</u>	<u>Women's</u>	<u>Children's</u>	<u>Men's</u>	<u>Women's</u>	<u>Children's</u>	<u>Men's</u>
Florsheim	Florsheim	Poll-Parrot	Florsheim	Florsheim	Savage	Julius Marlow
Hy-Test	Thayer McNeil	Red Goose	McHale	Thomas Wallace		Florsheim
Ambassador	Personality		Rand	Denny Stewart		
Rand	Miss Wonderful		Passport			
Winthrop	diVina					
Outdoorsman	Vitality					
Worthmore	Rambler					

Many of these brands are advertised in national magazines, and a substantial amount of advertising is done in local newspapers and on local television.

During recent years competition in the footwear business has become increasingly intense. Footwear manufactured abroad has captured a greater proportion of the domestic market, primarily as the result of manufacturing labor cost advantages. In addition, styling has become an increasingly important factor in the market for men's wear.

In order to compete effectively in this environment, INTERCO has made a concerted effort to eliminate low-margin lines, to improve efficiency by consolidating older multi-story operations into one-story plants, to eliminate certain supply plants when the materials and supplies could be purchased from others on a competitive basis, and to take advantage of the Company's ability to obtain footwear made to its specifications by a number of foreign manufacturers.

INTERCO operates 38 shoe manufacturing plants (an aggregate of 2,383,778 square feet), of which 31 are located in the United States, 5 in Canada and 2 in Australia.

Distribution is made principally from modern, centrally located distribution centers. The Company owns a majority of its footwear manufacturing plants and distribution centers.

The Company operates 886 retail shoe stores and leased department operations in the United States, Canada, and Mexico. Retail sales are made through stores operated under the Florsheim and Thayer McNeil names and under various regional and local names.

General Retail Merchandising

INTERCO began to diversify its operations into the general retail merchandising business in 1964 with the acquisition of a junior department store chain located in the Midwest. Through other acquisitions as well as its own store openings, general retail sales represented approximately 33% of reported net sales for INTERCO at February 28, 1973. These operations comprised 579 stores. The majority of these locations are leased, as is much of the warehouse and administrative space necessary to support these operations.

The general retail merchandising business includes a wide range of types of stores and goods sold, and for purposes of management control and operational convenience it is presently subdivided into major operating groups. Purchases by the general retail merchandising groups of footwear and apparel manufactured by INTERCO are not substantial.

P. N. Hirsch & Co. is the most diverse of these groups. Its operations range from relatively small junior department stores in smaller communities which sell apparel, shoes, yard goods and textiles in the medium and medium-low price ranges through medium-sized department stores to a few large, traditional department stores in metropolitan areas. P. N. Hirsch & Co. operates a total of 247 stores throughout the Midwest and Northwest.

Sam Shainberg Company operates 124 junior department stores under the Shainberg's name and self-service stores under the Kent's name in the Southeast. The Shainberg's stores average approximately 10,000 to 15,000 square feet in floor area and offer retail services, credit plans, and merchandise selected and priced to attract middle income families. The Kent's stores are smaller, cash-and-carry, self-service retail operations featuring soft goods merchandised to appeal to budget-conscious customers.

Central Hardware Company is comprised of 23 home improvement and hardware supermarts located in metropolitan areas in the Midwest and in California. These stores, which range in size from 50,000 to 70,000 square feet of floor area, are operated under the Central and Central Lin-Brook names and feature all types of hardware, lumber and other building supplies, major appliances, plumbing fixtures, sporting goods and toys. In addition, this group operates a wholesale hardware operation in the Midwest.

Eagle Family Discount Stores, Inc. operates 151 self-service units operated principally in Florida. These 6,000 to 8,000 square foot stores feature convenience items such as health and beauty aids, gardening, pool and household supplies, as well as inexpensive clothing, housewares, small appliances, hardware and toys. Approximately 30% of these items are merchandised under the Eagle name.

Fine's Men's Shops, Inc. and Standard Sportswear, Inc. operate 28 stores in Virginia, North Carolina, South Carolina, West Virginia and Pennsylvania. These stores primarily feature an extensive line of popular-priced men's sportswear and accessories.

Golde's Department Stores, Inc. operates 6 stores in Missouri and Illinois. These stores are classified as medium-sized department stores.

Apparel Manufacturing

In fiscal 1965 INTERCO entered the apparel manufacturing business through the acquisition of a private label manufacturer of work clothing. Since that time the Company has expanded its apparel manufacturing business through acquisition and internal growth to include a full range of branded sportswear for men and boys, as well as various private label sportswear items. Sales of manufactured apparel represented approximately 23% of INTERCO'S reported net sales at February 28, 1973.

Approximately one-half of the Company's sales of apparel is made under its Campus brand name. This brand, which is sold primarily to independent retail stores, department stores and a few popular priced chain retailers, consists of a broad line of slacks, sport and dress shirts, knit shirts, sweaters, suits, sportcoats, outerwear, swimwear, and shorts for men, young men and boys. The merchandising emphasis is to provide the retailer with these merchandise categories in the latest fashions at competitive prices. The Campus name is also promoted directly to consumers through national magazine advertising and retail store displays. Other apparel manufacturing companies include Cowden Manufacturing Company, The Biltwell Company, Inc. and the Big Yank Corporation.

About one-third of the Company's apparel sales are made to customers under their own brand names. The most significant of these sales are of jeans and leisure clothing to national retailing companies, three of which account for a majority of such sales. Most of the Company's apparel is manufactured by it in 39 plants operated in the United States, and the balance is manufactured by others to INTERCO's order. In addition, the Company operates 7 distribution centers for its apparel business. Most of the apparel facilities are leased.

Employees

INTERCO employs approximately 40,500 persons. It is a party to collective bargaining agreements with a number of unions and their respective locals. The largest numbers of employees covered by individual collective bargaining agreements are the approximately 4,025 employees covered by an agreement with the Boot & Shoe Workers Union and the approximately 9,075 employees covered by an agreement with the United Shoe Workers of America. Both of these agreements expire on September 30, 1974.

The Company contributes to various pension plans maintained by unions with which it has collective bargaining agreements and also contributes to pension plans which it maintains for certain of its salaried and hourly rated employees.

Competition

In the shoe and apparel businesses the Company is subject to substantial competition from foreign as well as domestic manufacturers. In addition, significant styling changes can affect the acceptance of certain of the Company's product categories. In the retailing business the Company competes with other retailing companies for store locations as well as for the procurement of merchandise.

Litigation

INTERCO is a defendant and may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of Ronald L. Aylward, Vice-President and General Counsel of the Company, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the financial position or results of operation of the Company.

INTERCO is subject to a cease and desist order issued by the Federal Trade Commission in 1959 and consented to by INTERCO pursuant to which the Company may not require any purchaser of its footwear to deal exclusively in its products.

Economic Stabilization Program

Federal regulations and guidelines have been issued under the Economic Stabilization Act of 1970, as amended, which affect firms' employee compensation, prices, dividend rates and profit margins applicable to domestic operations. The Company is a Price Category I firm under Phase IV, which phase began August 13, 1973 and continues in effect, and is subject to certain prenotification and reporting requirements. The regulations under Phase IV are similar to the regulations in effect during Phase II. Generally, under the Phase IV regulations, prices may be increased above base prices to reflect increases in allowable costs, reduced by assumed productivity gains, as long as the firm's current profit margin does not exceed its new base period profit margin. However, under Phase II allowable costs could be passed through in such a manner as to maintain the firm's profit margin, subject to the profit margin limitations referred to above but under the Phase IV regulations such costs may be passed through only on a dollar for dollar basis.

Energy Sources

The current energy situation has not had an immediate material affect on the Company. The long range impact of the energy situation is unknown.

MANAGEMENT OF INTERCO

Directors

The following table sets forth certain information with respect to the directors of INTERCO, all of whom were elected at the annual meeting of stockholders held on March 12, 1973 to hold office until the next annual meeting of stockholders or until their successors are elected and qualified.

Name	Position with Company or Other Principal Occupation	Year First Became a Director	Shares of Company Stock Beneficially Owned Directly or Indirectly on Nov. 19, 1973 (2)	
			Common	Preferred
David R. Calhoun	Chairman of the Board of St. Louis Union Trust Company and Chairman of the Executive Committee of First Union, Incorporated. On November 19, 1973, said trust company in various fiduciary capacities was the owner or holder of 904,453 shares of INTERCO INCORPORATED Common Stock, and 50 shares of INTERCO INCORPORATED Series B First Preferred Stock.	1959	1,000	
Maurice R. Chambers	Chairman of the Board and Chief Executive Officer (1)	1957	6,264	
Stanley M. Cohen	Executive Vice-President, also President of Central Hardware Company (1)	1967	17,699	
Webster L. Cowden	Vice-President, also Chairman of the Board of Cowden Manufacturing Company	1965	8,200	
William L. Edwards, Jr.	Senior Executive Vice-President (1)	1970	3,225	
Joseph Fox	Vice-President, also President of International Retail Shoe Company (Retired June 1, 1973)	1963	8,600	
Richard P. Hamilton	Vice-President, also President of The Florsheim Shoe Company	1972	2,500	
Philip N. Hirsch	Vice-President, also President of P. N. Hirsch & Co. (1)	1964	18,361	
J. Lee Johnson	Retired (1)	1937	84,500	
Edwin S. Jones	Chairman of the Board of First National Bank in St. Louis	1970	200	
Samuel S. Kaufman	Vice-President, also Chairman of the Board of Campus Sweater & Sportswear Company	1968		18,036 (3) (Series C)
Donald E. Lasater	Chairman of the Board of Mercantile Bancorporation Inc. and Mercantile Trust Company National Association, St. Louis, Missouri. On November 19, 1973, said trust company in various fiduciary capacities was the owner or holder of 1,044,670 shares of INTERCO INCORPORATED Common Stock (4).	1970	200	
Norfleet H. Rand	Vice-Chairman of the Board and Treasurer (1)	1956	134,636	
John K. Riedy	President and Chief Operating Officer (1)	1967	10,125	
Edward J. Riley	Vice-President, also President of International Shoe Company (1)	1962	9,000	
Herbert Shainberg	Vice-President, also Chairman of the Board of Sam Shainberg Company	1967	67,872	

(1) Presently member of Executive Committee.

(2) The securities "beneficially owned" by the directors are determined in accordance with the definition of "beneficial ownership" as set forth in the releases of the Securities and Exchange Commission and, accordingly, may include securities owned by and for, among others, the wife and/or minor children of the director.

(3) The 18,036 shares of INTERCO INCORPORATED Series C Second Preferred Stock listed for Samuel S. Kaufman are 11.4% of the 158,359 shares of said series which are issued and outstanding.

(4) These shares are held in trustee and custodian accounts and represent approximately 10% of the Company's outstanding voting securities.

Remuneration of Directors and Officers

The following information is furnished as to the aggregate remuneration paid or set aside by the Company and its subsidiaries to, or for the benefit of, the following persons, for services in all capacities during the Company's fiscal year ended February 28, 1973:

1. Each person who was a director of the Company at any time during such fiscal year, and whose aggregate remuneration, exclusive of pension, retirement and similar payments, exceeded \$30,000.

2. Each person who was one of the three highest paid officers of the Company during such fiscal year, and whose aggregate remuneration, exclusive of pension, retirement and similar payments exceeded \$30,000.

3. All persons, as a group, who were directors or officers of the Company at any time during such fiscal year.

<u>Name of Individual or Identity of Group</u>	<u>Capacities in which Remuneration was received</u>	<u>Aggregate Direct (1) Remuneration</u>	<u>Deferred Compensation Credited During 1973 (2)</u>
Maurice R. Chambers	Chairman of the Board and Chief Executive Officer	\$117,413	\$ 82,403
Stanley M. Cohen	Executive Vice-President, also President of Central Hardware Company	60,000	
Webster L. Cowden	Vice-President, also Chairman of the Board of Cowden Manufacturing Company	89,654	14,270
William L. Edwards, Jr.	Senior Executive Vice-President	70,000	2,500
Richard H. Ely	Secretary and Senior Counsel (until his death January 20, 1973)	38,083	
Joseph Fox	Vice-President, also President of International Retail Shoe Company (Retired June 1, 1973)	64,511	47,500
Richard P. Hamilton	Vice-President, also President of The Florsheim Shoe Company	102,500	
Philip N. Hirsch	Vice-President, also President of P. N. Hirsch & Co.	130,459	
Samuel S. Kaufman	Vice-President, also Chairman of the Board of Campus Sweater & Sportswear Company	70,243	
Norfleet H. Rand	Vice-Chairman of the Board and Treasurer	57,255	
John K. Riedy	President and Chief Operating Officer	102,902	21,250
Edward J. Riley	Vice-President, also President of International Shoe Company	139,511	
Herbert Shainberg	Vice-President, also Chairman of the Board of Sam Shainberg Company	50,000	3,040
22 Officers and Directors as a Group	Directors and/or officers of the Company and subsidiaries	1,263,863	170,963

(1) Aggregate Direct Remuneration includes salary and cash bonuses paid and/or accrued during the year.

(2) Amounts set aside for Deferred Remuneration (excluding amounts listed under "Deferred Compensation," page 23) — The deferred remuneration credited to Mr. Chambers' deferred compensation account brings his total amount in the account to \$633,426 which is payable after retirement in 15 annual installments.

The deferred remuneration credited for Mr. Cowden to the trustee deferred profit sharing plan of Cowden Manufacturing Company brings the total standing to his credit to \$153,239 subject to any earnings and losses of the fund and other transfers. Amounts credited are payable upon retirement in a lump sum, in monthly installments over a period of 10 years, or by purchase of life insurance and/or annuity contracts.

A deferred compensation plan is provided Mr. Edwards and a total of \$2,500 is in the account which is payable over a period of ten years after retirement.

The deferred remuneration credited to Mr. Fox's deferred compensation account brings his total in the account to \$472,931, which is payable upon termination of employment with the Company in 120 equal monthly installments.

A deferred compensation plan is provided for Mr. Hamilton and a total of \$10,500 is in the account which is payable upon retirement at age 65 in 120 equal monthly installments.

A five-year deferred compensation plan was provided for Mr. Hirsch for the period ended January 31, 1969. The plan provided that deferred compensation credited would be payable 5 years after the close of the fiscal year with respect to which credit was made. A payment of \$32,601 was made during 1973 and the total remaining to his credit in the account is \$53,732 which is payable during the next fiscal year.

The deferred remuneration credited to Mr. Riedy's deferred compensation account brings the total amount in the account to \$192,054. This is payable over a period of ten years after retirement.

A deferred profit sharing plan of Sam Shainberg Company provides for contributions by that company based upon the consolidated profit of that company and its subsidiaries. The deferred remuneration credited to Mr. Shainberg's account brings the total standing to his credit to \$155,600. Sam Shainberg Company also contributed \$11,223 to a retirement fund for Herbert Shainberg, bringing the total standing to his credit in that fund to \$110,575.

The Company has employment contracts with Messrs. Shainberg and Cohen at current salary rates of \$50,000 and \$60,000 respectively. The contracts will expire respectively in 1974 and 1977.

Deferred Compensation

Pursuant to a deferred compensation incentive agreement covering a five year period ended January 5, 1970, the following amounts stand credited to special deferred compensation accounts for the individuals designated: Maurice R. Chambers \$333,000, Richard H. Ely \$83,250, Joseph Fox \$277,500, Richard P. Hamilton \$6,938, Norfleet H. Rand \$138,750, John K. Riedy \$55,500, Edward J. Riley \$277,500. The amounts credited, which had been fully accrued at November 30, 1969, by charges against income during the years since the plan was established, become payable in 120 monthly installments upon termination of employment. After attaining age 55 participants in the plan receive supplemental cash benefits annually based upon the amount in the respective deferred compensation accounts. During the year supplemental cash benefits were paid and/or accrued as follows: Maurice R. Chambers \$17,413, Joseph Fox \$14,511, Norfleet H. Rand \$7,255, John K. Riedy \$2,902 and Edward J. Riley \$14,511. These cash benefits are included in the table indicating Aggregate Direct Remuneration.

Retirement Program

Group Annuity — Noncontributory and Insured

The Company has a group annuity plan which has been in effect since January 1, 1941. It is insured with Metropolitan Life Insurance Company. It applies to executive and administrative employees who are employed by the Company before reaching age 50. Benefits are payable at age 65 and thereafter. If because of sickness or other extenuating cause retirement is granted within ten years of age 65, payments may commence on a reduced basis. This reduced basis consists of a percentage of the then purchased annuity as provided under the contract. Prior to January 1, 1968, the employee contributed approximately 40% of the cost of retirement insurance. On January 1, 1968 the plan was changed to a non-contributory plan and since that date, the entire cost has been borne by the Company.

The group annuity integrates with social security and is intended to be approximately a 2% per year plan on the amount of salary in excess of \$6,000 per annum.

On February 28, 1973, there were 945 employees (including directors and officers) participating in the plan.

The following table illustrates the benefits commencing at age 65 that accrue for a continuous salary for certain periods of coverage:

Annual Salary for Number of Years Shown	Annual Benefits for Years of Service Indicated				
	15 yrs.	20 yrs.	25 yrs.	30 yrs.	35 yrs.
\$ 5,000	\$ 724	\$ 964	\$ 1,204	\$ 1,444	\$ 1,684
10,000	2,156	2,876	3,596	4,316	5,036
25,000 and up	6,660	8,880	11,100	13,320	15,540

Supplemental Retirement Plan — *Noncontributory and Unfunded*

In order to make the transition from active employment to retirement less abrupt the Company has a supplemental noncontributory unfunded retirement plan which pays a certain amount in excess of the combined group annuity and the Federal Old-Age Benefits sufficient to raise the total to 50% of the employee's highest salary during the five years immediately preceding age 65 for the first year of retirement after reaching age 65, and then it declines each year 5 percentage points until 20% is reached for 15 years of service — 25% for 25 years service — 30% for 30 years of service and 33⅓% for 35 years or more of service. The supplemental plan was formalized during the fiscal year 1960. Prior to that time all such benefits were voluntary and cancellable. Now the employee's entitlement to benefits payable on reaching age 65 vests at age 60. The Company may arrange for early retirement (before age 65) with the commencement of supplemental benefits on a reduced basis comparable to the basis of early retirement provided for in the group annuity contract. This plan is effective with respect to retirements occurring after April 30, 1960.

Assuming a Federal Old-Age Benefit of \$266 per month the schedule of supplemental benefits, relating to the group annuity table shown above, for the first year of retirement after reaching age 65, is illustrated in the following table:

Annual Salary for Number of Years Shown	Annual Supplemental Benefits				
	15 yrs.	20 yrs.	25 yrs.	30 yrs.	35 yrs.
\$ 25,000	\$ 2,648	\$ 428	\$ 0	\$ 0	\$ 0
50,000	15,148	12,928	10,708	8,488	6,268
75,000	27,648	25,428	23,208	20,988	18,768
100,000	40,148	37,928	35,708	33,488	31,268
125,000	52,648	50,428	48,208	45,988	43,768
150,000	65,148	62,928	60,708	58,488	56,268

By the seventh year of retirement the schedule of supplemental benefits would be reduced to the following table and will be payable until the death of the retired employee:

Annual Salary for Number of Years Shown	Annual Supplemental Benefits				
	15 yrs.	20 yrs.	25 yrs.	30 yrs.	35 yrs.
\$ 50,000	\$ 148	\$ 0	\$ 0	\$ 0	\$ 0
75,000	5,148	2,928	4,458	5,988	6,268
100,000	10,148	7,928	10,708	13,488	14,601
125,000	15,148	12,928	16,958	20,988	22,935
150,000	20,148	17,928	23,208	28,488	31,268

All supplemental payments stop at the end of the month in which the death of the employee occurs.

Stock Options

During the period commencing March 1, 1972 and ending November 19, 1973 the following options to purchase, at the market price of the stock on the date of grant, Common Stock of the Company were granted:

<u>Name of Director or Officer</u>	<u>Number of Shares</u>	<u>Average Per Share Option Price</u>
Maurice R. Chambers	10,000	\$43.125
William L. Edwards, Jr.	7,500	43.708
Richard H. Ely	1,000	48.375
Richard P. Hamilton	3,000	48.375
John K. Riedy	10,000	44.875
Edward J. Riley	3,000	48.375
All Directors and Officers as a Group	42,250	44.771

During the period commencing March 1, 1972 and ending November 19, 1973, the following options were exercised:

<u>Name of Director or Officer</u>	<u>Number of Shares</u>	<u>Aggregate Purchase Price</u>	<u>Aggregate Market Value of Shares on Date Options Exercised</u>
Stanley M. Cohen	3,000	\$ 96,750	\$ 140,625
Webster L. Cowden	4,000	129,000	202,000
William L. Edwards, Jr.	1,875	54,609	96,875
Richard P. Hamilton	2,000	64,500	94,625
John K. Riedy	5,625	172,031	310,781
Philip N. Hirsch	5,000	70,000	253,750
Edward J. Riley	4,000	129,000	201,500
Herbert Shainberg	4,000	129,000	215,500
All Directors and Officers as a Group	34,250	998,078	1,766,875

The following table shows options outstanding November 19, 1973:

<u>Name of Director or Officer</u>	<u>Number of Shares</u>	<u>Average Per Share Option Price</u>
Maurice R. Chambers	10,000	\$43.125
Stanley M. Cohen	3,500	29.25
William L. Edwards, Jr.	14,375	38.848
Richard P. Hamilton	7,500	40.90
John K. Riedy	19,375	37.315
Edward J. Riley	6,500	44.54
All Directors and Officers as a Group	71,000	39.92

In connection with the exercise of an option to purchase 1000 shares of Common Stock of the Company, Ronald L. Aylward, Vice President and General Counsel, borrowed \$25,000 on December 1, 1971 from a subsidiary of the Company which makes loans to employees for that purpose. The

loan is secured by a pledge of 1,234 shares of Common Stock and as of December 1, 1973 \$11,282.58 was owed plus 8% interest per annum.

Certain Transactions

Webster L. Cowden, a vice-president and director of the Company and chairman of the board of its subsidiary Cowden Manufacturing Company, and his associates own a controlling interest in corporations which lease to Cowden Manufacturing Company a factory building at Morehead, Kentucky, a factory building at Mt. Sterling, Kentucky, a factory building at Lancaster, Kentucky, and an office building at Lexington, Kentucky. The current annual rental for these properties for the fiscal year 1973 was \$109,278, of which Mr. Cowden's gross interest amounted to \$82,578. Four of the five leases involved provide for the payment of real estate taxes by the landlord, and two of the leases provide for insurance coverage at the expense of the landlord. All five of the leases have approximately 7 years to run and provide that the tenant shall maintain the properties. The provisions are favorable to the subsidiary when compared to leases with non-affiliated persons.

Herbert Shainberg, a vice-president and director of the Company and chairman of the board of its subsidiary Sam Shainberg Company, and his associates are participants in partnerships or own all of the stock of corporations which lease to subsidiaries of Sam Shainberg Company six retail store buildings located in Memphis, Union City, and Dyersburg, Tennessee. The current annual rental for these properties during the fiscal year 1973 was \$122,500, of which Mr. Shainberg's gross interest amounted to \$38,000. All of the leases provide for payment of taxes, insurance, maintenance and repairs by the landlord. The provisions are favorable to the subsidiary when compared to leases with non-affiliated persons.

BUSINESS AND PROPERTIES OF DEVON

General

Devon Apparel, Inc. designs, manufactures and sells women's coordinated apparel produced primarily from synthetic fibers. Its principal products are sweaters, slacks, skirts, vests, jackets and shirts. These products are sold under the "Devon" and "Lady Devon" labels and under retail customers' private labels to approximately 7,000 retail outlets throughout the United States, including department stores, specialty shops and chain stores. Products under the "Devon" label are sold to the "Missy" sportswear market (sizes 8-18), while products sold under the "Lady Devon" label are sold to the large size sportswear market. Devon commenced selling under the "Lady Devon" label in the fall of 1970. Devon's products are primarily designed and marketed as coordinates in color, style and fabric so that they may be purchased and worn separately or in a variety of combinations as parts of an ensemble. Retail prices of Devon's products range from \$7.00 to \$25.00.

Design

Style changes for the four retail selling seasons (Fall, Holiday, Spring and Summer) are determined by Devon's design staff (8 to 10 persons) after studies of current trends as reported in fashion and textile publications and consultations with leading yarn and fabric manufacturers and with retailers of women's apparel. During fiscal 1973, Devon's total expenditure on design-related activities was \$155,000.

Manufacturing

Devon's manufacturing facilities are located at plants in Philadelphia, Pennsylvania and Long Branch, New Jersey. Devon's Long Branch operations are currently being transferred to Philadelphia.

The manufacturing process consists of knitting, washing, cutting, sewing, printing and finishing. Approximately 65% of the manufacturing process for Devon's products was performed at its Philadelphia and Long Branch facilities. Approximately 35% of the manufacturing process for Devon's products was performed by as many as 60 subcontractors. There are no long-term agreements with any subcontractors. Devon performs quality control checks at each step of the manufacturing process.

Distribution

Devon has a sales force of 58 independent sales representatives carrying its "Devon" and "Lady Devon" lines, all of whom are compensated solely on a commission basis. Five of these representatives also sell non-competing products of other manufacturers. Sales offices are maintained by the representatives in Atlanta, Chicago, Charlotte, Dallas, Denver, Los Angeles, Miami, Minneapolis and San Francisco. All orders are subject to credit approval and acceptance by Devon. Devon carries its own trade receivables.

Approximately 93% of Devon's sales during fiscal 1973 were made under its own labels to department stores and specialty shops and approximately 7% were made under private labels to chain stores. During the period, the ten largest customers accounted for approximately 18% of Devon's sales, with one customer accounting for approximately 6% of Devon's sales. No other customer accounted for as much as 3% of Devon's sales during the period.

Competition

The women's apparel industry consists of a large number of firms, no one of which accounts for more than a minor percentage of total industry sales. Since there are no current industry statistics available, Devon is unable to determine what portion of the market it supplies. Devon is subject to competition from both foreign and domestic manufacturers. The success of Devon's business depends, to a great degree, on acceptance by the public of the styles offered and the continued acceptance of apparel manufactured from knitted fabrics. Consequently, the business can be subject to change depending upon the extent to which management can predict consumer tastes.

Backlog

At September 28, 1973, Devon had a backlog of approximately \$11,000,000 of unshipped orders. Management believes that this backlog will be filled by December 31, 1973.

Suppliers

Devon's products are made of various synthetic fibers, including Antron nylon, polyester and acrylic. Devon purchases its raw materials from a number of suppliers, four of whom accounted for approximately 49% of all raw materials purchases during fiscal 1973. No other supplier accounted for as much as 10% of raw material purchases during such period. The industry has recently experienced a raw material shortage, which occurred as a result of a rapid increase in the cost of natural fibers which caused many apparel manufacturers who in the past had used natural fibers to switch their production to synthetic fibers. Recently, a potential shortage of those synthetic fibers, which are petroleum based, has arisen due to the current energy crisis. While Devon has no long-term commitments with its suppliers, it has not experienced any difficulty in obtaining the materials required for the manufacture of its products. To assure continuity of delivery of raw materials, Devon works closely with suppliers in advance of each season.

Employees

Devon employed 753 full-time employees at September 28, 1973, of which 617 were engaged in manufacturing and distribution, 29 in sales (exclusive of independent sales representatives) and 107 in administrative and other functions. Of the employees engaged in manufacturing and distribution, 375 were paid on an hourly basis and 202 were piece workers; the remaining 40 employees engaged in these activities are salaried. As of that date, employees at the Philadelphia plants were represented by Local 190 of the ILGWU under a contract between the union and an association of which Devon is a member. This contract expires on June 30, 1975.

Devon has pension plans for all qualified employees not covered under the union pension plan. Approximately \$69,774 was charged to income during fiscal 1973 by reason of these plans.

Information as to Classes of Similar Products

The following table sets forth information with respect to the approximate percentage of total sales contributed by each class of similar products of Devon during the fiscal periods ended.

	<u>March 31, 1972</u>	<u>March 30, 1973</u>	<u>6 Months Ended September 28, 1973</u>
"Devon"	77%	80%	82%
"Lady Devon"	6%	13%	12%
Others	17%	7%	6%

Properties

The following table sets forth the location, size, means of possession and principal use of Devon's major facilities:

	<u>Approx. Number of Sq. Feet</u>	<u>Manner of Occupancy</u>	<u>Principal Use</u>
Philadelphia, Pennsylvania 3300 Frankford Avenue	240,000	Owned(a)	Executive offices, Principal manu- facturing facility; Warehousing; and Shipping
3900 "G" Street	50,000	Owned(b)	Manufacturing
4309 "G" Street	50,000	Lease expiring 1977	Manufacturing

	<u>Approx. Number of Sq. Feet</u>	<u>Manner of Occupancy</u>	<u>Principal Use</u>
Tacony Avenue and Church Street	27,000	Lease expiring 1978	Shipping
Long Branch, New Jersey	20,000	Lease expiring 1977	Cutting(c)
New York, New York 1411 Broadway	3,500	Lease expiring 1980	Sales
1407 Broadway	1,600	Lease expiring 1975	Sales

- (a) Devon occupies two connected buildings at this address under an Installment Sale Agreement with Philadelphia Authority for Industrial Development, a non-profit corporation.
- (b) Occupied under an Installment Sale Agreement with Philadelphia Authority for Industrial Development, a non-profit corporation.
- (c) Cutting operations are currently being phased out and this facility is being used for storage.

The total rentals paid by Devon for the fiscal year ended March 30, 1973 were \$141,310.

Devon's executive offices and principal manufacturing facilities are located in two connected five-story brick and stone buildings and other related space contained in these buildings. Devon presently uses 15,000 square feet of floor space for its executive offices, approximately 105,000 square feet of floor space for manufacturing purposes and approximately 135,000 square feet of floor space for shipping and warehouse. Of the remaining space, approximately 15,000 square feet of floor space is leased to third-party tenants. The existing buildings at 3300 Frankford Avenue have been occupied by Devon since 1950 and are approximately 50 years old. Extensive renovations have been made to the manufacturing, warehouse and office areas.

Devon believes that its existing facilities are in good condition and are adequate for the purposes for which they are presently used.

Devon owns knitting, sewing and other manufacturing equipment, all of which is in good condition. It leased an IBM Model 360, Series 20 computer system on which it paid rentals during the past fiscal year of approximately \$90,800. This system has been replaced and upgraded by the leasing of an IBM Model 360, Series 30 computer system at an estimated annual rental of \$115,000.

Economic Stabilization Program

Federal regulations and guidelines have been issued under the Economic Stabilization Act of 1970, as amended, which affect firms' employee compensation, prices, dividend rates and profit margins applicable to domestic operations. Devon is a Price Category III firm under Phase IV, which phase began August 13, 1973 and continues in effect, and is subject to certain record keeping and reporting requirements. The regulations under Phase IV are similar to the regulations in effect during Phase II. Generally, under the Phase IV regulations, prices may be increased above base prices to reflect increases in allowable costs, reduced by assumed productivity gains, as long as the firm's current profit margin does not exceed its new base period profit margin.

MANAGEMENT OF DEVON

Directors

The following table sets forth certain information with respect to the directors of Devon, all of whom were elected at the annual meeting of stockholders held on August 16, 1973 to hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified.

<u>Name</u>	<u>Present Principal Occupation or Employment</u>	<u>Director From</u>	<u>Number of Shares Beneficially Owned (a) as of Sept. 28, 1973 (f)</u>
William Forman(b)	President of Devon	June 12, 1967	286,056
Robert Gallagher	President of Bayrock Advisors, Inc., New York, New York(c)	Oct. 31, 1969	None
Raymond Kasser	President of Kasser Distillers Products Corporation, Phila., Pa.(d)	Oct. 29, 1971	2,000
David Kittner(b)	Partner in the law firm of Blank, Rome, Klaus & Comisky, Phila., Pa.(e)	April 2, 1969	200
Stanley Matzkin(b)	Executive Vice-Pres. and Secretary of Devon	June 12, 1967	283,036
Melvin Sisskind	Vice-Pres. — Sales of Devon	Oct. 29, 1971	15,700
Gary Sussman	Vice-President — Merchan- dising of Devon	Oct. 29, 1971	2,950

(a) The securities "beneficially owned" by the nominees are determined in accordance with the definition of "beneficial ownership" as set forth in the releases of the Securities and Exchange Commission and, accordingly, may include securities owned by and for, among others, the wife and/or minor children of the nominee.

(b) Members of the Executive Committee.

(c) Bayrock Advisors, Inc. is the investment advisory subsidiary of Bache & Co., Incorporated.

(d) Kasser Distillers Products Corporation is a distiller and wholesaler of wines and spirits.

(e) Mr. Kittner is Assistant Secretary of Devon.

(f) Does not include shares subject to outstanding stock options granted by Devon. See "Stock Options."

Additional Information Concerning Directors and Officers

The following table sets forth information as to each director and to each of the four highest paid officers of Devon whose aggregate direct remuneration from Devon and its subsidiaries exceeded \$30,000 for the fiscal year ended March 30, 1973, their estimated annual retirement benefits, and the aggregate direct remuneration of all directors and officers of Devon as a group:

<u>Name</u>	<u>Capacity in Which Remuneration Was Received</u>	<u>Aggregate Direct Remuneration (a)</u>	<u>Estimated Annual Retirement Benefits (b)</u>
William Forman	President and Chairman of the Board	\$90,604(c)	\$16,871
Stanley Matzkin	Executive Vice President and Director	\$90,302(c)	\$17,016
Melvin Sisskind	Vice President — Sales and Director	\$61,174	\$11,250
Gary Sussman	Vice President — Marketing and Director	\$60,434	\$10,600
All officers and directors as a group(d)		\$408,847(c)(e)	

(a) Includes, where applicable, salaries, bonuses, director's fees and other compensation from Devon and its subsidiaries paid during the fiscal year ended March 30, 1973, but does not include compensation resulting from the exercise of stock options.

- (b) These figures are necessarily based upon certain assumptions, including the assumption that the individual will remain in the employ of Devon or its subsidiary at his March 30, 1973 salary rate until he reaches normal retirement age of 65, and that the applicable pension plan of Devon or its subsidiary will remain in force in its present form.
- (c) These figures do not include a nonaccountable expense allowance for Messrs. Forman and Matzkin of \$5,000 each.
- (d) Includes the directors and officers specifically named above and consists of nine persons in total. In this Proxy Statement, the term "officers" means a President, Vice President, Treasurer, Secretary and Comptroller.
- (e) This figure does not include \$20,300 paid as legal fees during the fiscal year ended March 30, 1973 to the law firm of Blank, Rome, Klaus & Comisky. David Kittner, a director and Assistant Secretary of Devon, is a partner of such law firm.

Devon pays the premiums on a \$20,000 term life insurance policy on each of the lives of William Forman and Stanley Matzkin, payable to a beneficiary designated by each of them respectively.

Effective September 1, 1970, Devon adopted a pension plan covering all non-union employees (other than certain part-time employees), who, on the effective date or any anniversary thereof, had been continuously employed for one full year. Maximum annual pension benefits after retirement at the normal retirement age of sixty-five (or after ten years of participation, if later) equals 24% of that portion of the participant's annual compensation from Devon (based upon the highest consecutive five years of compensation) in excess of his social security integration level.

Messrs. Sisskind and Sussman receive their compensation from Formatz Sales Company ("Formatz"), a wholly owned subsidiary of Devon, and are entitled to receive benefits under the Formatz Pension Plan. The estimated annual retirement benefit under the Formatz Pension Plan is set forth in the preceding table and is based upon a monthly pension of 25% of monthly compensation. Normal retirement age under the Formatz Pension Plan is sixty-five (or after ten years of participation, if later).

Stock Options

The following table sets forth as to certain directors and officers, and as to all directors and officers as a group, (i) the amount of shares under options granted from March 31, 1972 through September 28, 1973, (ii) the amount of shares acquired through the exercise of options from March 31, 1972 through September 28, 1973 and (iii) the amount of shares subject to all unexercised options at September 28, 1973.

<u>Shares of Common Stock</u>	<u>Melvin Sisskind</u>	<u>Gary Sussman</u>	<u>All Directors and Officers of the Company as a Group</u>
Granted March 31, 1972 through September 28, 1973			
Number of Shares	2,500	2,500	7,200
Weighted Average Option Price Per Share	\$9.90	\$9.90	\$9.63
Exercised March 31, 1972 through September 28, 1973			
Number of Shares	2,000	2,000	6,700
Aggregate Option Price of Options Exercised	\$12,500	\$12,500	\$41,875
Aggregate Market Value of Shares on Date Options Exercised	\$24,000	\$20,250	\$92,259
Unexercised at Sept. 28, 1973			
Number of Shares	5,500	5,500	18,300
Weighted Average Option Price Per Share	\$8.74	\$8.74	\$8.67

DESCRIPTION OF CAPITAL STOCK OF INTERCO

The following statements are brief summaries of certain provisions of the Composite Articles of Incorporation of INTERCO, which are filed with the Securities and Exchange Commission.

INTERCO has three authorized classes of Capital Stock: Common Stock, without par value; First Preferred Stock, without par value and Second Preferred Stock, without par value. Both classes of Preferred Stock are issuable in series and there are presently outstanding one series of First Preferred Stock and one series of Second Preferred Stock.

Common Stock

The holders of Common Stock have one vote for each share held of record and are entitled, voting together with the holders of Preferred Stock as described below, to cumulate votes for the election of directors. Upon any liquidation, dissolution or winding-up of INTERCO, and after the holders of the outstanding Preferred Stocks have been paid the amounts to which they are entitled, the holders of Common Stock are entitled to the remaining net assets of INTERCO.

Subject to the rights of holders of the Preferred Stocks and certain restrictions contained in the Loan Agreement with respect to the Company's outstanding 4% Promissory Installment Notes (see "Capitalization"), the holders of Common Stock are entitled to receive dividends when and as declared by the Board of Directors out of any funds legally available therefor. Retained earnings of \$43,810,000 are restricted, under the Loan Agreement, as to the payment of cash dividends on capital stock and the purchase, redemption or retirement of capital stock. Further, no dividend payments may be made unless, after giving effect thereto, consolidated working capital will be at least \$80,000,000.

The outstanding shares of Common Stock are fully paid and non-assessable, and the shares of newly issued Common Stock offered hereby, when issued in accordance with the Agreements, will be fully paid and non-assessable. No holder of Common Stock is entitled as a matter of right to purchase any shares of capital stock, obligations, warrants, or other securities of INTERCO of any class, whether now or hereafter authorized.

Preferred Stock

There are set forth below certain provisions relating to the Preferred Stocks which may affect the rights of the holders of Common Stock.

Priority — Shares of the Preferred Stocks rank senior to the Common Stock as to dividends and liquidation. The holders of Series B First Preferred Stock and Series C Second Preferred Stock are entitled to receive, in preference to the Common Stock, cumulative dividends in the amounts of \$2.10 per share, and \$5.25 per share, respectively. Upon any liquidation, dissolution or winding-up of INTERCO, the holders of the Series B First Preferred Stock and Series C Second Preferred Stock are currently entitled to receive before any payment or distribution is made to holders of Common Stock, \$42.10 per share, and \$105.25 per share, respectively, if the liquidation is voluntary; \$40 per share, and \$100 per share, respectively, if the liquidation is involuntary, together in each case with accrued dividends.

Conversion Rights — The outstanding shares of Preferred Stock of each series are convertible into shares of Common Stock, as set forth under "Capitalization."

Voting Rights — The holders of the outstanding Preferred Stocks have the following votes for each share held of record: Series C Second Preferred Stock, one vote; and Series B First Preferred Stock $\frac{2}{3}$ of one vote. The holders of the Preferred Stocks are entitled to vote together with the holders of Common Stock, without regard to class, on all matters to be voted upon by stockholders (cumulatively for the election of directors), except as required by law and except that (i) if quarterly dividends payable to either class of Preferred Stock are in default, the holders of both classes thereof,

voting together as a single class, are entitled to elect two members of the Board of Directors and the holders of Common Stock voting as a class are entitled to elect the remaining directors, and (ii) the separate vote of the holders of the outstanding shares of a class of Preferred Stock, without regard to series, is necessary for: (a) any increase in the authorized number of shares of such class of Preferred Stock, (b) the authorization of a new class of stock ranking prior to or on a parity with such class of Preferred Stock as to dividends or distribution of assets, and (c) an alteration or change in the designation of the powers, preferences or rights of the holders of such class of Preferred Stock so as to adversely affect that class of Preferred Stock.

DESCRIPTION OF DEVON COMMON STOCK

Devon is authorized to issue 3,000,000 shares of common stock par value \$.20 per share, of which 2,019,526 were issued and outstanding as of September 28, 1973. All of the outstanding shares of common stock are fully paid and nonassessable.

Dividend Rights

Dividends may be paid on the common stock at the discretion of the Board of Directors out of any funds of Devon legally available therefor.

Voting Rights

Each holder of common stock is entitled to one vote for every share of common stock outstanding in his name on the books of Devon, with cumulative voting in the election of directors.

Liquidation Rights

Upon any distribution of the assets of Devon, the holders of the common stock share ratably in the assets of Devon available for distribution after payment of all indebtedness.

Other Provisions

No holder of common stock has any preemptive rights to subscribe for any securities of Devon. No shares of the common stock have any sinking fund provisions, conversion rights or redemption provisions.

Transfer Agents and Registrars

The Chase Manhattan Bank, N. A. and The Philadelphia National Bank are the transfer agents and both banks are the registrars for the common stock of Devon.

Listing

Devon's common stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended, and is listed and traded on the American Stock Exchange.

Rights of Dissenting Shareholders

The Devon shareholders are not entitled to dissenters rights of appraisal with respect to the merger under the Pennsylvania Business Corporation Law since, under that law, dissenters rights are not afforded with respect to shares listed on the American Stock Exchange on the record date.

EXPERTS

The consolidated financial statements of INTERCO INCORPORATED and subsidiaries for the five years ended November 30, 1972 and the three months ended February 28, 1973 appearing in this Proxy Statement have been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report and upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Devon Apparel, Inc. and subsidiaries for the five years ended March 30, 1973 appearing in this Proxy Statement have been examined by Clarence Rainess & Co., independent certified public accountants, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report and upon the authority of such firm as experts in accounting and auditing.

This Proxy Statement does not contain all of the information set forth in the Registration Statement filed by INTERCO with the Securities and Exchange Commission, Washington, D. C., pursuant to the Securities Act of 1933, certain parts of which are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the securities offered hereby, reference is made to the Registration Statement, including the exhibits thereto. The Registration Statement may be inspected at the office of the Commission or copies may be obtained upon payment of the applicable charges.

BY ORDER OF THE BOARD OF DIRECTORS

DEVON APPAREL, INC.

Stanley Matzkin
Secretary

Philadelphia, Pennsylvania
December 10, 1973

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ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
INTERCO INCORPORATED:

We have examined the consolidated balance sheet of INTERCO INCORPORATED and subsidiaries as of February 28, 1973 and the related statements of earnings and stockholders' equity for the five years ended November 30, 1972 and the three months ended February 28, 1973, and changes in financial position for the three years ended November 30, 1972 and the three months ended February 28, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at February 28, 1973 and the results of their operations and changes in stockholders' equity and financial position for the periods indicated above, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
April 9, 1973

INTERCO INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	Thousands of Dollars	
	February 28, 1973	August 31, 1973
		(Unaudited)
CURRENT ASSETS:		
Cash	\$ 17,352	\$15,672
Receivables, less allowance for doubtful accounts and cash discounts of \$3,164,000 at February 28, 1973 and \$3,356,000 at August 31, 1973	136,898	147,223
Inventories (Note 1):		
Finished products and other merchandise	169,672	171,816
Raw materials and work in process	52,412	54,521
	222,084	226,337
Prepaid expenses	2,460	2,625
Future income tax benefits	2,109	2,033
Total current assets	380,903	393,890
OTHER ASSETS:		
Future income tax benefits	2,646	2,552
Excess of investment over equity in subsidiaries at acquisition, net of amortization (Note 1)	9,995	9,756
Sundry investment and other assets	5,407	5,928
Total other assets	18,048	18,236
PROPERTY, PLANT AND EQUIPMENT, AT COST (Note 1):		
Land	4,817	4,826
Buildings and improvements	79,611	81,000
Machinery and equipment	87,823	91,255
	172,251	177,081
Less accumulated depreciation	85,595	88,315
Net property, plant and equipment	86,656	88,766
	<u>\$485,607</u>	<u>\$500,892</u>

See accompanying notes to consolidated financial statements.

INTERCO INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

	Thousands of Dollars	
	February 28, 1973	August 31, 1973 (Unaudited)
CURRENT LIABILITIES:		
Notes payable	\$ —	\$ 11,836
Current maturities of long-term debt	3,557	3,527
Accounts payable	59,958	58,475
Accrued expenses:		
Payrolls	10,858	10,811
Taxes, other than income	6,075	5,216
Interest	712	851
Other	8,353	10,793
Income taxes	13,027	6,551
Total current liabilities	102,540	108,060
OTHER LIABILITIES:		
Long-term debt, less current maturities (Note 3)	60,778	59,316
Deferred compensation and other deferred liabilities	9,121	9,005
Minority interests in subsidiaries (Note 1)	2,840	2,861
Total other liabilities	72,739	71,182
STOCKHOLDERS' EQUITY:		
Preferred stock, at stated and liquidating value (Note 4):		
First preferred	929	599
Second preferred	15,836	15,836
	16,765	16,435
Common stock, at stated value (Note 5)	75,230	75,344
Capital surplus	42,423	42,563
Retained earnings	176,545	187,308
	310,963	321,650
Less common stock in treasury, at cost (Note 5)	635	—
Total stockholders' equity	310,328	321,650
	<u>\$485,607</u>	<u>\$500,892</u>

INTERCO INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Data with respect to August 31, 1973 and the six months then ended is unaudited)

	Thousands of Dollars					
	Preferred Stock	Common Stock		Capital Surplus	Retained Earnings	Total
	Issued	in Treasury				
BALANCE NOVEMBER 30, 1967:						
As previously reported	\$32,607	\$55,666	\$(4,672)	\$ 182	\$ 80,612	\$164,395
Poolings of interests adjustments	16,214	630	8,059	(1,863)	(2,872)	20,168
As restated (Note 2)	48,821	56,296	3,387	(1,681)	77,740	184,563
Net earnings	—	—	—	—	26,252	26,252
Stock options exercised	78	144	34	97	—	353
Preferred stock conversions	(629)	231	—	397	—	(1)
Cash dividends:						
Preferred stock	—	—	—	—	(2,087)	(2,087)
Common stock — \$0.90 per share	—	—	—	—	(6,458)	(6,458)
Pooled companies prior to combination	—	—	—	—	(42)	(42)
BALANCE NOVEMBER 30, 1968	48,270	56,671	3,421	(1,187)	95,405	202,580
Net earnings	—	—	—	—	26,598	26,598
Stock options exercised	35	154	621	30	—	840
Preferred stock conversions	(1,068)	361	—	706	—	(1)
Cash dividends:						
Preferred stock	—	—	—	—	(2,429)	(2,429)
Common stock — \$1.00 per share	—	—	—	—	(7,236)	(7,236)
Pooled companies prior to combination	—	—	—	—	(503)	(503)
Issuance of 82,969 common treasury shares for pooled companies not restated and 2,250 com- mon treasury shares for acquisition of net assets	—	—	1,918	145	(851)	1,212
Treasury stock acquired	—	—	(4,908)	—	—	(4,908)
BALANCE NOVEMBER 30, 1969	47,237	57,186	1,052	(306)	110,984	216,153
Pooling of interests adjustments (Notes 2 and E)	—	1,804	—	1,319	—	3,123
	47,237	58,990	1,052	1,013	110,984	219,276
Net earnings	—	—	—	—	28,480	28,480
Stock options exercised	150	4	—	(7)	—	147
Preferred stock conversions	(812)	271	—	541	—	—
Cash dividends:						
Preferred stock	—	—	—	—	(2,498)	(2,498)
Common stock — \$1.10 per share	—	—	—	—	(8,156)	(8,156)
Pooled companies prior to combination	—	—	—	—	(45)	(45)
Stock issued to former stockholders of pooled company	3,792	—	—	(10)	(3,784)	(2)
Treasury stock acquired	(8)	—	(4,717)	(4)	—	(4,729)
BALANCE NOVEMBER 30, 1970	50,359	59,265	(3,665)	1,533	124,981	232,473
Net earnings	—	—	—	—	32,865	32,865
Stock options exercised	496	180	280	299	—	1,255
Preferred stock conversions	(28,118)	9,333	—	18,782	—	(3)
Cash dividends:						
Preferred stock	—	—	—	—	(1,787)	(1,787)
Common stock — \$1.20 per share	—	—	—	—	(10,059)	(10,059)
Pooled companies prior to combination	—	—	—	—	(101)	(101)
Treasury stock acquired	—	—	(424)	—	—	(424)
Sale of 400,000 common shares	—	3,000	—	13,843	—	16,843
Stock issued to former stockholders of pooled company — 12,191 shares	—	—	341	—	(341)	—
Series B preferred treasury shares converted to 132 common treasury shares	—	1	(3)	2	—	—
BALANCE NOVEMBER 30, 1971	<u>\$22,737</u>	<u>\$71,779</u>	<u>\$(3,471)</u>	<u>\$34,459</u>	<u>\$145,558</u>	<u>\$271,062</u>

See accompanying notes to consolidated financial statements.

INTERCO INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Data with respect to August 31, 1973 and the six months then ended is unaudited)

	Thousands of Dollars					
	Preferred Stock	Common Stock Issued	Common Stock in Treasury	Capital Surplus	Retained Earnings	Total
BALANCE NOVEMBER 30, 1971	\$22,737	\$71,779	\$(3,471)	\$34,459	\$145,558	\$271,062
Net earnings	—	—	—	—	37,697	37,697
Stock options exercised:						
Series C — 4,087 shares	409	—	—	(134)	—	275
Common — 178,365 shares	—	1,000	1,291	2,623	—	4,914
Preferred stock conversions:						
Series A — 27,227 shares	(2,723)	888	—	1,835	—	—
Series B — 29,912 shares	(1,196)	448	—	748	—	—
Series C — 26 shares	(3)	1	—	2	—	—
Cash dividends:						
Preferred stock	—	—	—	—	(1,035)	(1,035)
Common stock — \$1.24 per share	—	—	—	—	(11,740)	(11,740)
Pooled companies prior to acquisition	—	—	—	—	(101)	(101)
Issuance of 40,250 common shares for acquired company	—	302	—	1,207	—	1,509
BALANCE NOVEMBER 30, 1972	19,224	74,418	(2,180)	40,740	170,379	302,581
Net earnings	—	—	—	—	11,133	11,133
Stock options exercised:						
Common — 1,250 shares	—	9	—	27	—	36
Preferred stock conversions:						
Series A — 24,305 shares	(2,430)	792	—	1,638	—	—
Series B — 635 shares	(25)	10	—	15	—	—
Series C — 40 shares	(4)	1	—	3	—	—
Cash dividends:						
Preferred stock	—	—	—	—	(220)	(220)
Common stock — \$0.32 per share	—	—	—	—	(3,202)	(3,202)
Stock issued to former stockholders of pooled company — 53,800 shares	—	—	1,545	—	(1,545)	—
BALANCE FEBRUARY 28, 1973	16,765	75,230	(635)	42,423	176,545	310,328
Net earnings	—	—	—	—	18,612	18,612
Stock options exercised:						
Common — 5,600 shares	—	5	164	(80)	—	89
Preferred stock conversions:						
Series A — 2,807 shares	(281)	91	—	189	—	(1)
Series B — 1,220 shares	(49)	18	—	31	—	—
Cash dividends:						
Preferred stock	—	—	—	—	(436)	(436)
Common stock — \$0.64 per share	—	—	—	—	(6,416)	(6,416)
Treasury stock acquired (Note 5)	—	—	(526)	—	—	(526)
Stock issued to former stockholders of pooled company — 30,317 shares	—	—	997	—	(997)	—
BALANCE AUGUST 31, 1973	<u>\$16,435</u>	<u>\$75,344</u>	<u>\$ —</u>	<u>\$42,563</u>	<u>\$187,308</u>	<u>\$321,650</u>

INTERCO INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Data with respect to the six months ended August 31, 1973 is unaudited)

	Thousands of Dollars				
	Year Ended November 30,			Three Months Ended	Six Months Ended
	1970	1971	1972	February 28, 1973	August 31, 1973
Working capital provided by:					
Net earnings	\$28,480	\$32,865	\$37,697	\$ 11,133	\$ 18,612
Depreciation and amortization	9,029	9,784	10,175	2,718	5,639
Decrease (increase) in future income tax benefits	(622)	(219)	(162)	282	94
Other, net	165	28	120	(303)	(95)
Operations	37,052	42,458	47,830	13,830	24,250
Disposal of property, plant and equipment	3,385	5,947	982	167	1,249
Issuance of common stock for conversion of preferred stock — contra below	812	28,118	3,922	2,459	330
Exercise of stock options	147	1,255	5,189	36	89
Working capital of purchased companies	3,403	451	5,364	—	—
Issuance of common stock for purchase of company	—	—	1,509	—	—
Sale of common stock	—	16,843	—	—	—
Other, net	—	162	—	580	—
	<u>44,799</u>	<u>95,234</u>	<u>64,796</u>	<u>17,072</u>	<u>25,918</u>
Working capital used for:					
Purchase of property, plant and equipment	16,058	14,234	14,797	3,154	8,759
Cash dividends	10,699	11,947	12,876	3,422	6,852
Conversion of preferred stock — contra above	812	28,118	3,922	2,459	330
Reduction of long-term debt	4,139	3,268	5,983	1,354	1,462
Purchase of companies	9,538	509	6,296	—	—
Treasury stock acquired	4,729	424	—	—	526
Other, net	752	—	764	—	522
	<u>46,727</u>	<u>58,500</u>	<u>44,638</u>	<u>10,389</u>	<u>18,451</u>
Increase (decrease) in working capital	<u>\$ (1,928)</u>	<u>\$36,734</u>	<u>\$20,158</u>	<u>\$ 6,683</u>	<u>\$ 7,467</u>
Working capital increased (decreased) by:					
Cash	\$ (363)	\$ 9,640	\$ (6,127)	\$ (11,494)	\$ (1,680)
Receivables	3,372	2,155	19,288	2,627	10,325
Inventories	18,187	14,172	14,964	7,667	4,253
Notes payable	(13,781)	20,085	(9,751)	9,751	(11,836)
Current maturities of long-term debt	(635)	551	1,129	236	30
Accounts payable and accrued expenses	(11,142)	(9,697)	(618)	(3,882)	6,286
Other current assets and liabilities, net	2,434	(172)	1,273	1,778	89
	<u>\$ (1,928)</u>	<u>\$36,734</u>	<u>\$20,158</u>	<u>\$ 6,683</u>	<u>\$ 7,467</u>

See accompanying notes to consolidated financial statements.

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Data with respect to August 31, 1972 and 1973 and the respective six months then ended is unaudited)

(1) Summary of Significant Accounting Policies:

The company employs generally accepted accounting principles on a consistent basis to present fairly its financial position, results of operations, changes in stockholders' equity and changes in financial position. The major accounting policies of the company are set forth below.

Fiscal Year —

On December 11, 1972, the Board of Directors approved the change in the company's fiscal year from November 30 to the last day in February.

Principles of Consolidation —

The consolidated financial statements include the accounts of all subsidiaries which are more than 50% owned.

Working capital and operating results of foreign subsidiaries (principally Canadian) are converted into United States dollars at approximate exchange rates at the end of the fiscal period. Non-current assets are generally stated at exchange rates prevailing at dates of acquisitions. Unrealized gains and losses from conversion of foreign currencies are not material and are reflected in current operations.

All material intercompany accounts, transactions, and unrealized profit have been eliminated in consolidation.

Inventories —

Approximately 93% of the inventories are priced at the lower of cost (first-in, first-out) or replacement market. The remainder of the inventories are priced on the "last-in, first-out" method. Had the "first-in, first-out" method been applied to all inventories, they would have been stated at \$246,246,000 and \$241,416,000 at August 31, 1973 and February 28, 1973, respectively. Inventories used in the computation of cost of sales are as follows:

November 30:

1967 — \$135,924,000	1970 — \$185,281,000
1968 — 148,619,000	1971 — 199,453,000
1969 — 167,094,000	1972 — 214,417,000

February 28:

1973 — 222,084,000	1972 — 200,660,000
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August 31:

1973 — <u>226,337,000</u>	1972 — <u>211,356,000</u>
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Property, Plant and Equipment —

The provision for depreciation is based on the estimated useful lives of the assets, ranging from 3 to 50 years for buildings and improvements and 3 to 16 years for machinery and equipment. For financial reporting purposes, the company employs both the straight-line and accelerated methods in computing depreciation. Currently, approximately 75% of the depreciation expense was computed on the straight-line method. Maintenance and repairs are charged to operations as incurred, while renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation thereon are removed from the accounts and any gain or loss is reflected in operations.

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Minority Interests in Subsidiaries —

Minority interests in subsidiaries consists of capital stock of \$601,000, capital surplus of \$110,000 and retained earnings of \$2,150,000 at August 31, 1973.

Excess of Investment Over Equity in Subsidiaries —

Cost in excess of net assets of companies acquired, except for approximately \$5,300,000 which arose prior to December 1, 1969, is being amortized on a straight-line basis, generally over forty years.

Start-Up Expenses —

Start-up expenses of new facilities are charged to operations in the period incurred.

Income Taxes —

Deferred compensation, depreciation, profit on installment sales and certain reserves are recognized for income tax purposes in years other than the years in which they are reported in the financial statements. Provision has been made for resulting deferred taxes and future tax benefits. Investment tax credits are reflected as a reduction of Federal income taxes for the period in which qualified property is placed in service.

It is the company's intent that the undistributed earnings of subsidiaries will be reinvested in the subsidiaries. Accordingly, no provision has been made for income taxes on such undistributed earnings.

The Federal income tax returns of the company and its major subsidiaries have been examined through 1968. Examinations of years 1969 through 1971 are currently in process. Management is of the opinion that the results of these examinations will have no material effect on the company's financial position or results of operations.

(2) Acquisitions:

During the five years ended November 30, 1972 the company consummated a number of business combinations. All material business combinations accounted for as poolings of interests are included in the consolidated financial statements for all periods presented. Sales and net earnings of these companies for periods prior to consummation are reconciled to amounts originally reported by the company in Notes to Consolidated Statement of Earnings. For those business combinations accounted for as purchases, the accounts of the companies are included in the consolidated financial statements from the date of consummation of the respective transactions. The following table summarizes business combinations and consideration in exchange therefor by type of combination during each of the fiscal periods:

Poolings of interests —

- 1968 — Campus Sweater and Sportswear Company for a total of 162,146 shares of Series C cumulative, convertible second preferred stock. In addition, 37,920 contingent shares of Series C were issued in 1970 to the former stockholders.
- 1969 — Five companies for 82,969 shares of common stock.
- 1970 — Budmark Converters Co. Ltd., Biltwell Company, Inc., Proctor Enterprises, Fine's Men's Shops, Inc. and Bowen Shoe Company, Inc. for a total of 323,617 shares of common stock. In addition, 96,308 contingent shares of common stock were issued in subsequent periods and 30,136 shares of common stock were reserved at August 31, 1973 for future issuance.
- 1972 — Big Yank Corporation and Standard Sportswear, Inc. for 309,321 shares of common stock.

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchases —

1970 — Eagle Family Discount Stores, Inc. for \$8,091,400.

1972 — One company for 40,250 shares of common stock, and the operating assets of several businesses for an aggregate purchase price of \$4,787,000.

The results of operations of purchased businesses are not significant with respect to the consolidated results of operations in the respective periods of acquisition.

The stated value of preferred and common stock issued in certain poolings of interests transactions exceeded the sum of the capital stock and capital surplus accounts of pooled companies. Accordingly, \$1,863,000 of such excess was charged against capital surplus which arose from other transactions subsequent to November 30, 1967. Restatement for these poolings resulted in negative capital surplus at November 30, 1967. Treasury stock with a cost of \$8,059,000 was issued in certain poolings in 1970 and 1972. Of this amount \$3,387,000 was acquired subsequent to November 30, 1967. Accordingly, restatement for these poolings resulted in negative treasury stock at November 30, 1967.

On January 31, 1974 United Shirt Distributors, Inc. ("United") of Detroit, Michigan is scheduled to be merged into a subsidiary of INTERCO on an exchange of stock basis. The exchange ratio will be within the range of 2.0332 to 2.5750 shares of United Common Stock for each share of INTERCO Common Stock. The maximum and minimum number of INTERCO shares will be 142,667 and 112,652 respectively. The operations of United are summarized as follows, in thousands of dollars:

	Year Ended January 31,				
	1969	1970	1971	1972	1973
Sales	\$5,900	\$6,547	\$6,452	\$7,429	\$8,751
Earning before income taxes	579	613	474	621	1,009
Net earnings	271	281	230	302	490

(3) Long-Term Debt:

Long-term debt includes the following:

	Thousands of Dollars	
	August 31, 1973	February 28, 1973
4½% promissory installment notes, payable \$1,875,000 annually through 1989 and balance in 1990	\$44,375	\$44,375
6% promissory installment notes, payable \$750,000 annually, 1974-1975, \$1,250,000 annually, 1976-1979, and balance in 1980	8,625	9,375
4¾% obligation under long-term lease, payable in annual installments increasing from \$260,000 in 1974 to \$565,000 in 1991	7,165	7,415
Other debt at 2½% to 9¾% interest rates, payable in varying amounts through 1993	2,678	3,170
	62,843	64,335
Less current maturities	3,527	3,557
	<u>\$59,316</u>	<u>\$60,778</u>

The aggregate maturities of long-term debt during each of the five years following February 28, 1973 and August 31, 1973 are as follows:

Thousands of Dollars	
February 28, 1973	August 31, 1973
\$3,557	\$3,527
3,536	3,367
3,343	3,713
4,128	4,139
3,569	3,578

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The 4% note agreement restricts retained earnings of \$43,810,000 as to the payment of cash dividends on capital stock and the purchase, redemption or retirement of capital stock. The agreement also provides that no such payments be made unless consolidated working capital shall be at least \$80,000,000.

(4) Preferred Stock:

The company's preferred stock is issuable in series. Authorized preferred stock consists of 577,060 shares of first preferred (Series B) and 1,000,000 shares of second preferred (Series C) without par value. Such stock is summarized as follows:

Series B — \$2.10 cumulative, with stated and involuntary liquidating value of \$40 per share; issued 14,971 shares (16,191 shares at February 28, 1973), callable beginning in 1975 at \$42.10, decreasing to \$40.00 in 1985; convertible into 2 shares of common stock.

Series C — \$5.25 cumulative, with stated and involuntary liquidating value of \$100 per share; issued 158,359 shares at August 31, 1973 and February 28, 1973; callable beginning in 1975 at \$105.25, decreasing to \$100.00 in 1985; convertible into 3.0534 shares of common stock.

At February 28, 1973, 2,807 of First Preferred Series A — \$4.75 cumulative, with stated and involuntary liquidating value of \$100.00 per share were issued and outstanding. These shares were converted into 12,190 shares of the company's common stock on the basis of 4.3478 for 1.

(5) Common Stock:

The company's common stock consists of 30,000,000 shares authorized with stated value of \$7.50 per share, of which 10,045,941 shares were issued at August 31, 1973 (10,030,711 shares at February 28, 1973, including 22,113 shares in the treasury).

Shares of common stock were reserved for the following purposes at February 28, 1973 and August 31, 1973.

	Number of Shares			
	Unissued		Treasury	
	August 31, 1973	February 28, 1973	August 31, 1973	February 28, 1973
Conversion of preferred stock	513,475	528,119	—	—
Stock option plans:				
Qualified options — granted	217,375	153,575	—	—
— not granted	108,925	173,325	—	—
Not under formal plan — granted	—	—	—	5,000
Contingent shares based on profit per-				
formances of acquired companies	48,277	51,405	—	17,113
	<u>888,052</u>	<u>906,424</u>	<u>—</u>	<u>22,113</u>

The company purchased 7,000 and 6,204 common shares in April and June 1973, respectively. These shares, in addition to the 22,113 shares in the treasury at February 28, 1973, were reissued in June 1973. Of the shares, 5,000 were issued in the exercise of common options and 30,317 under an agreement to issue shares contingent upon earnings of an acquired company.

On November 13, 1967, the company adopted the 1967 Qualified Stock Option Plan. This Plan authorized the granting of options to purchase common stock of the company, at prices not less

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

than 100% of the fair market value on the date of grant, to key employees, including officers. The number of shares reserved for issuance under the Plan was 300,000 shares of common stock. Unless otherwise provided in the option agreements, options are exercisable in cumulative installments of 25% on the first four anniversary dates of the grant. Options expire five years from the date of granting.

On March 13, 1972 the stockholders approved the INTERCO INCORPORATED 1972 Stock Option Plan, authorizing the granting of qualified or non-qualified options, or a combination of both, to key employees, including officers. Two hundred thousand (200,000) shares of common stock are reserved for issuance under the Plan. Qualified and non-qualified options may be granted under the Plan at not less than 100% and 85%, respectively, of the fair market value of the common stock on the date an option is granted. The qualified options expire not later than five years from the date of grant and the non-qualified options expire not later than ten years from the date of grant. Unless otherwise provided in the option agreement, the options are generally exercisable at any time after date of grant. Agreements covering options issued to date under the Plan provide that the options become exercisable in cumulative installments of 25% in the third and fourth years, respectively, and 50% in the fifth year.

The following tabulations summarize information with respect to the stock option plans described above.

Options Granted During Period	Number of Shares	Option Price		Market Value at Dates Granted, Exercisable or Exercised	
		Range Per Share	Total	Range Per Share	Total
Qualified Options:					
Year ended November 30:					
1970 -----	31,750	\$29.25 - 32.25	\$ 961,716	\$29.25 - 32.25	\$ 961,716
1971 -----	54,350	41.25	2,241,938	41.25	2,241,938
1972 -----	64,400	46.13 - 50.31	3,155,513	46.13 - 50.31	3,155,513
Three months ended February 28:					
1973 -----	—	—	—	—	—
Six months ended August 31:					
1973 -----	67,400	41.38 - 43.13	2,806,175	41.38 - 43.13	2,806,175
Options Becoming Exercisable During Period					
Qualified Options:					
Year ended November 30:					
1970 -----	42,875	\$32.25 - 53.44	\$1,396,687	\$26.06 - 36.06	\$1,529,227
1971 -----	41,362	28.94 - 53.44	1,347,789	35.69 - 46.69	1,482,112
1972 -----	9,026	28.94 - 53.44	289,395	44.44 - 54.38	471,550
Three months ended February 28:					
1973 -----	—	—	—	—	—
Six months ended August 31:					
1973 -----	10,087	29.25 - 41.25	318,750	35.00 - 51.00	463,327

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Options Exercised During Period	Number of Shares	Option Price		Market Value at Dates Granted, Exercisable or Exercised	
		Range Per Share	Total	Range Per Share	Total
Qualified Options:					
Year ended November 30:					
1970	500	\$ 32.25	\$ 16,125	\$ 34.50	\$ 17,250
1971	24,060	32.25	775,935	37.94 - 48.13	1,096,540
1972	133,365	28.94 - 32.25	4,284,498	43.38 - 55.25	6,630,268
Three months ended					
February 28:					
1973	1,250	29.06	36,328	49.88	62,344
Six months ended August 31:					
1973	600	32.25	19,350	41.00 - 49.31	27,243
Not under formal Plan:					
Year ended November 30:					
1971	10,000	\$ 14.00	\$ 140,000	\$37.94 - 47.50	\$ 388,937
1972	45,000	14.00	630,000	45.31 - 50.44	2,214,844
Six months ended August 31:					
1973	5,000	14.00	70,000	35.88	179,375
<u>Options Cancelled</u>					
Qualified Options:					
Year ended November 30:					
1970	30,600				
1971	4,950				
1972	750				
Three months ended					
February 28:					
1973	1,100				
Six months ended August 31:					
1973	3,000				
<u>Shares Under Option at August 31, 1973</u>					
Qualified options	217,375	\$28.94 - 50.31	\$9,167,970	\$28.94 - 50.31	\$9,167,970

(6) Commitments and Contingent Liabilities:

The company and its subsidiaries have pension plans covering substantially all employees. The company's policy with respect to principal pension plans is to fund pension costs accrued. Total pension expense, which includes as to certain of the plans amortization of prior service cost over periods ranging from 20 to 40 years, was as follows (in thousands):

Year ended November 30:	Three months ended February 28:
1968 - \$4,600	1973 - \$1,938
1969 - 4,760	
1970 - 5,560	Six months ended August 31:
1971 - 6,023	1972 - \$3,800
1972 - 6,965	1973 - 4,637

INTERCO INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

The actuarially computed value of vested benefits as of latest valuation dates of the plans exceeds the total of the pension funds by approximately \$5,600,000.

Excluding rental payments on capitalized long-term leases, the company currently has leases expiring at various dates through the year 2047. Based upon existing leases, minimum annual rentals for fiscal 1974 will approximate \$20,400,000, with additional rentals payable under certain leases based on a percentage of sales in excess of specified minimums. Total rent expense was as follows (in thousands):

Year ended November 30:	Three months ended February 28:
1968 — \$20,950	1973 — \$8,586
1969 — 22,806	
1970 — 25,859	Six months ended August 31:
1971 — 28,156	1972 — \$15,498
1972 — 31,903	1973 — 16,939

The company has also guaranteed leases of retail outlets of customers which at February 28, 1973 aggregates approximately \$2,600,000 based on minimum rentals.

(7) Supplementary Income Statement Information:

	Thousands of Dollars				
	Year ended November 30,			Three Months Ended February 28, 1973	Six Months Ended August 31, 1973
	1970	1971	1972		
Depreciation	\$ 8,727	\$ 9,495	\$ 9,912	\$ 2,581	\$ 5,400
Taxes, other than income taxes:					
Payroll taxes	\$10,142	\$11,586	\$13,844	\$ 4,044	\$ 8,551
Property, and other state and local taxes	3,911	4,708	5,286	1,081	2,816
	\$14,053	\$16,294	\$19,130	\$ 5,125	\$11,367
Rents	\$25,859	\$28,156	\$31,903	\$ 8,586	\$16,939
Advertising	\$14,256	\$15,330	\$16,724	\$ 4,438	\$ 8,809

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
DEVON APPAREL, INC.

We have examined the consolidated balance sheet of Devon Apparel, Inc. and subsidiaries as at March 30, 1973 and the related consolidated statements of income, capital surplus and retained earnings for the five years then ended and changes in financial position for the three years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Devon Apparel, Inc. and subsidiaries as at March 30, 1973 and their consolidated results of operations for the five years then ended and changes in financial position for the three years then ended, in conformity with generally accepted accounting principles consistently applied.

CLARENCE RAINESS & CO.

Philadelphia, Penna.
May 17, 1973

DEVON APPAREL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS		March 30, 1973	September 28, 1973 (Unaudited)
Current assets:			
Cash	\$	526,884	\$ 340,038
U. S. Treasury notes and commercial paper at cost plus accrued interest (which approximates market)		1,202,546	851,402
Accounts receivable — net of reserve for doubtful accounts of \$147,525 and \$191,828		5,505,200	7,853,668
Inventories — Notes 1(b) and 2		8,655,910	8,305,657
Prepaid expenses and sundry current assets		332,376	453,156
Total current assets		16,222,916	17,803,921
Property assets — at cost less accumulated depreciation of \$1,576,411 and \$1,827,807 — Notes 1(c) and 3		4,538,324	4,766,105
Other assets		90,365	105,411
		<u>\$20,851,605</u>	<u>\$22,675,437</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$	2,628,577	\$ 3,213,345
Long-term debt — portion due within one year		70,718	74,265
Accrued expenses and sundry liabilities:			
Payroll and other employee compensation		65,227	75,662
Taxes, other than federal income taxes		331,765	228,238
Sundry		365,699	603,894
Federal income taxes		1,185,485	460,977
Total current liabilities		4,647,471	4,656,381
Long-term debt — Note 4		1,749,672	1,710,511
Deferred federal income taxes — Note 1(e)		196,358	218,858
Stockholders' equity — Note 5:			
Common stock — par value \$.20 per share			
Authorized — 3,000,000 shares			
Issued and outstanding — 2,018,926 shares —			
March 30, 1973 and 2,019,526 shares — September 28, 1973		403,785	403,905
Capital surplus		4,921,554	4,924,995
Retained earnings		8,932,765	10,760,787
		<u>14,258,104</u>	<u>16,089,687</u>
		<u>\$20,851,605</u>	<u>\$22,675,437</u>

See notes to consolidated financial statements.

DEVON APPAREL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

	March 31, 1969	March 31, 1970	Year Ended April 2, 1971 (52 Weeks)	March 31, 1972 (52 Weeks)	March 30, 1973 (52 Weeks)	Twenty-Six Weeks Ended September 28, 1973 (Unaudited)
Capital surplus at beginning of period	\$ 63,006	\$ 485,956	\$2,106,928	\$4,738,359	\$4,908,535	\$ 4,921,554
Net income of partnership	78,257	—	—	—	—	—
Credit in lieu of corporate income taxes not applicable to partnership	65,032	—	—	—	—	—
Drawings of partners	(141,520)	—	—	—	—	—
Par value of capital shares of subsidiaries donated to the Company	16,250	—	—	—	—	—
Excess of fair value of assets donated by a partnership over liabilities assumed (net of \$20,604 representing the excess of partnership earnings and credit in lieu of corporate income taxes over drawings for the three years ended March 31, 1969)	44,931	—	—	—	—	—
Transferred from common stock pursuant to recapitalization of April 2, 1969	360,000	—	—	—	—	—
Proceeds in excess of par value of common shares:						
Sold at public offering	—	1,620,972	2,814,491	—	—	—
Issued upon exercise of options	—	—	17,220	91,323	5,861	3,441
Tax benefits, under the Internal Revenue Code, attributable to disqualifying stock dispositions by optionees	—	—	—	78,853	7,158	—
Par value of shares issued in 2 for 1 stock split	—	—	(200,280)	—	—	—
Capital surplus at end of period	<u>\$ 485,956</u>	<u>\$2,106,928</u>	<u>\$4,738,359</u>	<u>\$4,908,535</u>	<u>\$4,921,554</u>	<u>\$ 4,924,995</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings at beginning of period	\$ 552,979	\$1,327,599	\$2,534,175	\$4,610,361	\$6,071,056	\$ 8,932,765
Net income	852,877	1,206,576	2,076,186	1,460,695	2,861,709	1,928,998
Cash dividends paid	—	—	—	—	—	(100,976)
Net income of partnership (transferred to capital surplus)	(78,257)	—	—	—	—	—
Retained earnings at end of period	<u>\$1,327,599</u>	<u>\$2,534,175</u>	<u>\$4,610,361</u>	<u>\$6,071,056</u>	<u>\$8,932,765</u>	<u>\$10,760,787</u>

See notes to consolidated financial statements.

DEVON APPAREL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	April 2, 1971 (52 Weeks)	Year Ended March 31, 1972 (52 Weeks)	March 30, 1973 (52 Weeks)	Twenty-Six Weeks Ended September 28, 1973 (Unaudited)
Sources of working capital:				
Provided by operations:				
Net income	\$ 2,076,186	\$ 1,460,695	\$ 2,861,709	\$ 1,928,998
Add items not involving the use of working capital:				
Depreciation	239,389	332,066	443,332	253,901
Provision for deferred federal income taxes	45,155	54,887	77,763	22,500
Total from operations	2,360,730	1,847,648	3,382,804	2,205,399
Proceeds from sale of common stock	2,844,491	—	—	—
Proceeds from exercise of stock options	17,500	94,348	6,061	3,561
Unamortized costs of property assets sold	—	—	27,849	9,666
Long-term debt incurred	272,487	688,360	900,000	—
Tax benefits, under the Internal Revenue Code, attributable to disqualifying stock dispositions by optionees	—	78,853	7,158	—
Other items	—	—	17,495	—
Total sources	5,495,208	2,709,209	4,341,367	2,218,626
Applications of working capital:				
Additions to property assets	1,324,120	1,347,307	1,476,667	491,348
Payments and current maturities of long-term debt	195,960	31,820	79,355	39,161
Cash dividends paid	—	—	—	100,976
Other items	52,031	4,263	—	15,046
Total applications	1,572,111	1,383,390	1,556,022	646,531
Increase in working capital	3,923,097	1,325,819	2,785,345	1,572,095
Working capital at beginning of period	3,541,184	7,464,281	8,790,100	11,575,445
Working capital at end of period	<u>\$ 7,464,281</u>	<u>\$ 8,790,100</u>	<u>\$11,575,445</u>	<u>\$13,147,540</u>
Increase (decrease) in components of working capital:				
Current assets:				
Cash	\$ 906,193	\$ (633,110)	\$ 15,026	\$ (186,846)
U. S. Treasury notes and commercial paper	—	—	1,202,546	(351,144)
Accounts receivable	132,003	376,772	433,853	2,348,468
Inventories	2,061,487	1,321,141	2,012,211	(350,253)
Prepaid expenses and sundry current assets	174,160	187,932	(128,751)	120,780
Total current assets	3,273,843	1,252,735	3,534,885	1,581,005
Current liabilities:				
Accounts payable	149,831	251,062	(195,862)	584,768
Notes payable — bank	(1,050,000)	550,000	(550,000)	—
Long-term debt — portion due within one year	(78,886)	25,931	44,787	3,547
Accrued expenses and sundry liabilities	47,138	(115,960)	299,133	145,103
Federal income taxes	282,663	(784,117)	1,151,482	(724,508)
Total current liabilities	(649,254)	(73,084)	749,540	8,910
Increase in working capital	<u>\$ 3,923,097</u>	<u>\$ 1,325,819</u>	<u>\$ 2,785,345</u>	<u>\$ 1,572,095</u>

See notes to consolidated financial statements.

DEVON APPAREL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Significant Accounting Policies:

(a) Principles of Consolidation —

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Material intercompany items and transactions have been eliminated in consolidation.

(b) Inventories —

Inventories are stated at the lower of cost (first-in, first-out method) or market.

(c) Property Assets —

The property assets have been depreciated substantially on a straight-line basis at rates based upon the estimated useful lives of the respective assets, as follows:

	<u>Estimated Useful Lives</u>
Buildings and improvements	30-40 years
Machinery and equipment	8-10 years
Office furniture, fixtures and automotive equipment	3-10 years
Leasehold improvements	Term of lease or estimated useful life, whichever is less

Maintenance, repairs and minor renewals are charged to income as incurred. Expenditures which increase the useful lives of the property assets are capitalized. When assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated from the accounts and any resulting gains or losses are reflected in income.

(d) Stock Options —

Proceeds from the issuance of capital shares upon exercise of stock options are reflected in capital surplus to the extent of the excess of exercise price over par value. No charges to income are made with respect to option grants. Tax benefits accruing to the Company upon premature dispositions by optionees are credited to capital surplus.

(e) Federal Income Taxes —

The Company's policy for financial statement purposes with respect to depreciation and certain other expenses differs from that used for federal income taxes. The federal income tax effects of such timing differences are deferred. Investment tax credits are reflected in income as the related qualifying assets are placed in service. The accumulated undistributed earnings of the Company's subsidiaries are intended to become available to the Parent Company through future tax-free distributions.

NOTE 2 — Inventories:

Inventories consist of the following:

	<u>March 30, 1973</u>	<u>September 28, 1973</u> (Unaudited)
Raw materials	\$1,995,035	\$1,320,723
Work in process	2,634,167	3,947,947
Finished goods	4,026,708	3,036,987
	<u>\$8,655,910</u>	<u>\$8,305,657</u>

DEVON APPAREL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories entering into the computation of cost of sales were as follows:

March 31, 1968	\$1,752,823
March 31, 1969	2,411,483
March 31, 1970	3,261,071
April 2, 1971	5,322,558
March 31, 1972	6,643,699
March 30, 1973	8,655,910
September 29, 1972 (Unaudited)	6,997,000
September 28, 1973 (Unaudited)	8,305,657

NOTE 3 — Property Assets:

Property assets are summarized as follows:

	March 30, 1973	September 28, 1973 (Unaudited)
Land	\$ 177,000	\$ 177,000
Buildings and improvements	2,094,014	2,156,025
Machinery and equipment	3,504,720	3,834,105
Office furniture, fixtures and automotive equipment	233,002	250,330
Leasehold improvements	105,999	176,452
	6,114,735	6,593,912
Accumulated depreciation	1,576,411	1,827,807
	<u>\$4,538,324</u>	<u>\$4,766,105</u>

NOTE 4 — Long-Term Debt:

At September 28, 1973, long-term debt, consists of the following:

6½% mortgage notes payable in varying monthly installments through June 1991	\$ 915,416
5% mortgage notes payable in varying monthly installments through January 1988	869,360
	1,784,776
Due within one year	74,265
	<u>\$1,710,511</u>

The depreciated cost of mortgaged property assets aggregated approximately \$2,200,000.

Maturities during the next 5 years are tabulated as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
1974	\$74,265
1975	78,516
1976	83,015
1977	87,777
1978	92,816

DEVON APPAREL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 — Capital Stock:

(a) Changes in outstanding shares —

Changes in outstanding common shares are as follows:

	Year Ended			Twenty-Six Weeks Ended
	1971	1972	1973	September 28, 1973
				(Unaudited)
Balance at beginning of period	850,000	2,002,800	2,017,926	2,018,926
Sold at public offering	150,000			
2 for 1 stock split	1,001,400			
Issued upon exercise of stock options	1,400	15,126	1,000	600
Balance at end of period	<u>2,002,800</u>	<u>2,017,926</u>	<u>2,018,926</u>	<u>2,019,526</u>

(b) Stock Options —

A maximum of 80,474 common shares are reserved for issuance pursuant to a qualified stock option plan. Options are granted at not less than the fair market value of the Company's common shares on the grant date, are cumulatively exercisable at the rate of 25% per annum commencing after one year, and expire after five years. Additionally, the Company adopted a nonstatutory plan in May, 1973 under which 75,000 shares were reserved for issuance under terms similar to those of the qualified plan.

At September 28, 1973, options to acquire 55,774 shares were outstanding at per share prices ranging from \$5.94 to \$13.88 (aggregate option price — \$429,099) exercisable as follows:

Year	Number of Shares
1974	33,724
1975	7,950
1976	6,350
1977	4,250
1978	3,500
	<u>55,774</u>

The status of the outstanding options at September 28, 1973 is as follows:

Fiscal Year Granted	Number of Shares	Option Price and Fair Market Value on Grant Dates	
		Per Share	Total
1970	23,374	\$6.25	\$146,088
1971	7,000	\$ 5.94 - \$10.81	72,761
1973	8,800	\$11.00 - \$13.88	97,950
Twenty-six weeks ended September 28, 1973 (Unaudited)	16,000	\$ 5.50 - \$ 7.00	112,300
	<u>55,774</u>		<u>\$429,099</u>

DEVON APPAREL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Shares as to which options became exercisable were as follows:

Fiscal Year Exercisable	Number of Shares	Option Price		Market Value On Exercise Dates	
		Per Share	Total	Per Share	Total
1971	10,775	\$6.25	\$ 67,344	\$5.75	\$ 61,956
1972	13,225	\$5.94 - \$10.81	90,908	\$ 9.75 - \$18.38	189,341
1973	16,449	\$5.94 - \$15.63	112,261	\$11.88 - \$15.50	217,631
Twenty-six weeks ended September 28, 1973 (Unaudited)	2,950	\$5.94 - \$15.63	30,567	\$ 5.50 - \$ 8.25	23,388
	<u>43,399</u>		<u>\$301,080</u>		<u>\$492,316</u>

Shares as to which options have been exercised are as follows:

Fiscal Year Exercised	Number of Shares	Option Price		Market Value On Exercise Dates	
		Per Share	Total	Per Share	Total
1971	2,800	\$6.25	\$ 17,500	\$11.37 - \$21.81	\$ 51,600
1972	15,126	\$5.94 - \$ 6.25	94,348	\$10.12 - \$22.00	233,746
1973	1,000	\$5.94 - \$ 6.25	6,061	\$11.37 - \$12.37	11,775
Twenty-six weeks ended September 28, 1973 (Unaudited)	600	\$5.94	3,561	\$8.13	4,875
	<u>19,526</u>		<u>\$121,470</u>		<u>\$301,996</u>

NOTE 6 — Pension Plans:

The Company has several employee pension plans, covering all qualified employees except those otherwise covered under a union agreement. The plans provide for normal retirement at age 65 and there is no past service liability. It is the Company's policy to fund pension costs as accrued.

NOTE 7 — Supplementary Income Statement Information:

	Year Ended			Twenty-Six Weeks Ended	
	1971	1972	1973	September 29, 1972 (Unaudited)	September 28, 1973 (Unaudited)
Depreciation	\$239,389	\$332,066	\$443,332	\$196,345	\$253,901
Taxes, other than taxes on income	267,780	360,857	390,787	168,092	233,857
Rents	212,528	287,325	266,390	139,872	170,090

PROCEEDINGS OF THE

CONFERENCE ON THE

TEACHING OF MATHEMATICS

IN THE UNITED STATES

1959-1960

AMERICAN MATHEMATICAL SOCIETY

PROCEEDINGS OF THE

CONFERENCE ON THE

TEACHING OF MATHEMATICS

IN THE UNITED STATES

1959-1960

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AMERICAN MATHEMATICAL SOCIETY

PROCEEDINGS OF THE

CONFERENCE ON THE

TEACHING OF MATHEMATICS

IN THE UNITED STATES

1959-1960

AMERICAN MATHEMATICAL SOCIETY

**AGREEMENT AND
PLAN OF REORGANIZATION**

AMONG

INTERCO INCORPORATED
A DELAWARE CORPORATION

INTERCO-PA INCORPORATED
A DELAWARE CORPORATION

AND

DEVON APPAREL, INC.
A PENNSYLVANIA CORPORATION

Dated as of
November 13, 1973

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION (the "Agreement") dated as of November 13, 1973, among INTERCO INCORPORATED ("INTERCO"), a Delaware corporation, its wholly-owned subsidiary, INTERCO-PA Incorporated ("PA Inc."), a Delaware corporation, Devon Apparel, Inc. ("Devon"), a Pennsylvania corporation, and the undersigned stockholders of Devon (the "Warranting Shareholder(s)");

WITNESSETH:

WHEREAS, the parties hereto desire to merge Devon into PA Inc., with Devon Shareholders receiving common stock of INTERCO in conversion of their shares in Devon.

NOW, THEREFORE, in order to consummate and effect such reorganization and merger, and in consideration of the mutual covenants and undertakings hereinafter set forth, the parties do hereby approve and adopt this Agreement as a Plan of Reorganization and do mutually covenant and agree as follows:

ARTICLE I

MERGER OF PA INC. AND DEVON

1.1 **Merger of Devon into PA Inc.** On the Closing Date (as hereinafter defined) Devon shall be merged with and into PA Inc. upon the terms and subject to the conditions set forth in the Agreement and Plan of Merger attached hereto as Exhibit A (the "Plan of Merger" or "Merger Agreement"). Pursuant to said Plan of Merger, the outstanding shares of Devon's Common Stock ("Devon Common Stock") shall be, on the effective date of the merger, automatically converted into that number of shares of INTERCO Common Stock, without par value ("INTERCO Common Stock"), determined as follows: the mean average per share closing price of INTERCO Common Stock on the New York Stock Exchange for the fifteen (15) trading days preceding the calendar week in which the vote of the Devon shareholders is taken divided into \$24,000,000; provided, however, that in no case shall said number of INTERCO Common Stock be less than 600,000 shares nor more than 725,000 shares. The ratio of converting shares of Devon Common Stock into one share of INTERCO Common Stock shall be determined by dividing the aforesaid number of shares of INTERCO Common Stock by the total number of shares of Devon Common Stock outstanding. The term "closing price" shall refer to the last sale price and the term "trading days" shall refer to days on which there were any sales of INTERCO Common Stock on the New York Stock Exchange.

1.2 **Issuance and Delivery of INTERCO Common Stock; No Fractional Shares.** INTERCO agrees to issue to PA Inc., on or before the Closing Date, all shares of INTERCO Common Stock required to be delivered to the shareholders of Devon as a result of the transactions contemplated by this Agreement and the Merger Agreement. Certificates representing the shares of INTERCO Common Stock to be issued and delivered to former shareholders of Devon pursuant to the Merger Agreement shall be delivered and transferred on the Closing Date by PA Inc., as the Surviving Corporation of the Merger of Devon with and into PA Inc., to Mercantile Trust Company N.A., as Conversion Agent, and shall be redelivered by the Conversion Agent to former shareholders of Devon only upon surrender and cancellation of certificates representing shares of Devon outstanding at the Closing Date; provided, however, that neither INTERCO nor Devon nor the Conversion Agent shall have any obligation to issue fractional shares of INTERCO Common Stock to any former shareholder of Devon. In lieu of the issuance or recognition of fractional shares of INTERCO Common Stock or interests or rights therein, the Conversion Agent, Mercantile Trust Company N.A. shall pay to each former shareholder of Devon otherwise entitled to a fractional share of INTERCO Common Stock an amount in cash equal to the fair market value of any such fractional share of INTERCO Common Stock to which such shareholder would be entitled but for this provision. For purposes of such payment the fair market value shall be the same fraction of the last sale price of the INTERCO Common Stock on the New York Stock Exchange on the last day prior to the Closing Date on which any shares of INTERCO Common Stock were sold on such Exchange. Unless and until any such out-

standing certificates for common stock of Devon shall be surrendered for conversion, no dividend or other distribution payable to holders of record of Common Stock of INTERCO at or after the Closing Date shall be paid to the holders of such outstanding certificates for Common Shares of Devon but upon surrender of such outstanding certificates as aforesaid there shall be paid to the record holder of the certificates for Common Stock of INTERCO delivered in exchange therefor the dividends and other distribution (without interest) that have theretofore become payable with respect to the Common Stock of INTERCO represented by said certificates delivered upon such surrender and exchange. Dividends and other distributions in respect of shares of INTERCO Common Stock held by the Conversion Agent for delivery upon presentation or non-surrendered Devon shares shall be held by the Conversion Agent for the account of such former shareholders of Devon.

1.3 Closing Date. The Closing of the transactions contemplated hereby shall take place at the offices of Blank, Rome, Klaus & Comisky, 4 Penn Center Plaza, Philadelphia, Penna. at 10:00 a.m. on January 11, 1974, (the "Closing Date"), provided that (a) the Merger Agreement and the transactions contemplated hereby are adopted and approved and (b) all conditions precedent to the Closing shall have been satisfied, or if all conditions precedent to the Closing have not been satisfied, the Closing Date shall be as soon thereafter as all such conditions shall have been satisfied; provided, however, that in no event shall the Closing Date occur later than February 28, 1974, without the consents of INTERCO's and Devon's respective Boards of Directors.

1.4 Effective Date. The merger of Devon with and into PA Inc. shall be effective upon the filing of the Merger Agreement with the Secretary of State of Delaware.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE WARRANTING SHAREHOLDERS

Each of the undersigned Warranting Shareholders, jointly and severally, represents and warrants (which representations and warranties need be true only in all material respects and shall survive the Closing Date), subject to the exceptions contained in the Financial Statements (as hereinafter defined), in the Disclosure Schedule attached hereto as Exhibit B, and in any of the other exhibits attached hereto, and except as specified by this Agreement, that:

2.1 Authority and Incorporation. Devon is a corporation duly organized and existing and in good standing under the laws of the Commonwealth of Pennsylvania and is duly qualified to conduct business in two other states, the States of New York and New Jersey, and has full corporate power under the Pennsylvania Business Corporation Law to carry on its business and to own and operate its properties now owned or operated by it. Devon has two wholly-owned subsidiaries: Formatz Sales Company, a Pennsylvania corporation, and Milyn Shop, Inc., a New Jersey corporation.

2.2 Capitalization. The authorized capital of Devon is 3,000,000 shares of \$.20 par value Common Stock. The number of shares of said Common Stock which is now outstanding is 2,019,526 shares, all of which outstanding shares are, under the Pennsylvania Business Corporation Law, validly issued, fully paid and nonassessable. Pending closing of the merger, no further shares of authorized but unissued capital stock or treasury shares of Devon will be issued except Devon may issue an appropriate number of its shares upon exercise of outstanding stock options, nor will any Devon shares be retired, purchased or acquired by Devon. Except for said stock options, Devon does not have outstanding any stock purchase warrants or other securities convertible into stock, and does not have any shares reserved for issuance but as yet not issued. Except for said stock options, Devon is not a party to any agreement obligating it to issue or transfer, at present or upon the occurrence of any further event, any stock of Devon.

2.3 Financial Statements. The financial statements contained in Devon's Form 10-K for the fiscal year ended March 30, 1973, including the related schedules and notes, a copy of which report has been delivered to INTERCO, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, and fairly present the financial position, results of opera-

tions and changes in financial position of Devon and its subsidiaries as of said dates and for the periods indicated in conformity with generally accepted accounting principles consistently applied.

2.4 Accounts Receivable. The consolidated amount of trade accounts receivable of Devon and its subsidiaries at September 28, 1973, as shown on the September 28, 1973 Consolidated Balance Sheet of Devon which has been delivered to INTERCO, and at the close of business on the day before the effective date of consummation of the merger, will represent good and collectible receivables at the amount so shown less the amount of the reserve in respect of such receivables, which reserve shall have been provided on a basis consistent with prior practices.

2.5 Inventories. The consolidated amount of inventories, as shown on the said September 28, 1973 balance sheet, has been valued at the lower of cost (first-in, first-out) or market, after due allowance for obsolete, slow-moving and damaged stock in accordance with generally accepted accounting principles consistently applied.

2.6 Assets. Devon owns and will own all the assets set out in the said September 28, 1973 balance sheet, except those disposed of since the date of said balance sheet, free and clear of any lien, charge or encumbrance, except as set forth therein and except as disclosed in or pursuant to this Agreement. Except for liens related to taxes not yet due and payable arising as a matter of law in the ordinary course of business and except for imperfections of title insignificant in character and amount, Devon has and shall have at closing good and marketable title to all said assets, excluding real estate owned in fee or equitably listed in Exhibit C, which is subject to the representation warranty set forth in Section 2.8 hereof, and except as disclosed in or pursuant to this Agreement.

2.7 Liabilities. All material liabilities of Devon, contingent or otherwise, as of the date of the March 30, 1973 balance sheet, which is part of the aforesaid Form 10-K report, required to be shown therein in accordance with generally accepted accounting principles, are set out in said balance sheet and the notes thereto and any taxes then due or payable by Devon have been paid in full, or adequately provided for by reserves shown on its respective records and books of accounts.

All tax returns required to be filed have been filed and such returns accurately reflect the taxes due from Devon. The federal income tax returns for Devon have been examined by the Internal Revenue Service through the return for the year ended March, 1970, and all deficiencies or refunds, if any, have been paid. The Warranting Shareholders shall be, therefore, (subject to the limitations of Article III hereof) jointly and severally, liable and responsible for reimbursement of all taxes of Devon due or subsequently assessed for periods prior to the Closing Date, to the extent they are not provided for or adequately reserved for in the financial statements which are part of the aforesaid Form 10-K report or in the books and records of Devon.

There are no material liabilities of Devon of any kind whatsoever, including liabilities under any current or previous employee pension or other benefit programs or compensation arrangements, whether or not accrued and whether or not determined or determinable, in respect of which INTERCO or any of its subsidiaries may become liable on or after consummation of the merger contemplated by this Agreement other than the following:

(a) liabilities reflected or adequately reserved in the said September 28, 1973 balance sheet, including the notes to such balance sheet;

(b) liabilities incurred in the ordinary course of business since September 28, 1973, none of which either alone or in the aggregate is materially adverse to the business, assets or results of operations of Devon; and

(c) liabilities, obligations or commitments disclosed in the attached Disclosure Schedule.

2.8 Real Estate and Leases. Devon holds in fee, as equitable owner under contract of sale and/or under lease all of the real property listed in Exhibit C. Exhibit C correctly sets forth for each parcel of such property (i) the location of the property, (ii) the approximate size of the premises, (iii) the nature of the interest of Devon in the property, and (iv) if the property is leased, the identity of the landlord. The title insurance policies which have been furnished to INTERCO are in full

force and effect. Devon has paid or accrued all rent due to date under the leases shown on Exhibit C, such leases permit the properties to which they apply to be used in the manner in which Devon is presently using them, and to the best of Devon's knowledge, it is not in default under any such lease.

2.9 Personalty. Substantially all the equipment owned by Devon for use in its business is well-maintained and in good condition, except for reasonable wear and tear. All leases of personalty are set forth in Exhibit D, attached hereto, and will be at closing, in good standing with all rental due to date paid or accrued.

2.10 Contracts. Devon is not a party to any sales agency agreement not subject to termination on notice of sixty (60) days or less, does not have any contracts not in the ordinary course of business for the purchase or sale of any merchandise, materials, products or supplies which contain escalator, renegotiation or redetermination clauses or which commit them for a fixed term, does not have any contracts of employment with any officer or employee, except as set forth in Exhibit E, does not have any pension or retirement plans or agreements, except as set forth in Exhibit F, does not have any profit-sharing plan, nor does it have any management or consultation agreements. It is not a party to any agreement(s), involving more than \$50,000 in aggregate, entered into other than in the usual and ordinary course of business. Devon does not have any contract, order or commitment expected to be performed at a material loss. Devon carries various insurance policies with respect to its operations and these policies are set forth in Exhibit G attached hereto.

2.11 Litigation. Except as listed in the attached Exhibit H, there are no actions or proceedings pending by or against Devon before any court, administrative agency or arbitrator and there are no pending, or to their knowledge, threatened or imminent litigations, governmental claims, complaints or prosecutions involving Devon.

2.12 Purchase Commitments. Devon does not have any contract for the purchase or sale of merchandise, materials, products or supplies except those made in the ordinary course of business.

2.13 Working Relationships. Devon has no knowledge of other than good working relationships under substantially all of the sales representation, leasing or other agreements of Devon necessary to the normal operation of its businesses. Devon is a party to the collective bargaining agreements set forth in Exhibit I and Devon has not received any notice of a material default in same. With respect to employees of Devon who are not covered by any collective bargaining agreement, none has petitioned for a representation election and, to the best of Devon's knowledge, no union is presently attempting to organize any of these employees.

2.14 Trademarks and Trade Names. Exhibit J contains a complete and accurate list of all trademarks, trade names, patents, licenses and similar items owned by or licensed to Devon. Devon owns all trademarks, trade names, patents and similar items so noted, free and clear of any encumbrances or claims of any other persons and Devon has not been notified of any claim or action seeking to have such trademark, trade name, patent or similar items declared void or invalid.

2.15 Distribution and Loans. Since September 28, 1973, Devon has not, and will not up to the Closing Date, without the written consent of INTERCO, which consent shall not be unreasonably withheld: (i) declared or paid any special dividends, redeemed or otherwise reacquired any of its outstanding stock, or made any other distributions to its stockholders, except for a regular dividend of \$.05 per share in December, 1973, and a special dividend of \$.03 per share in December, 1973, (ii) given any raises or bonuses to its officers or executive employees other than normal increases and bonuses. Devon has no outstanding loans, notes, bankers' acceptances, letters of credit and similar obligations except as set forth in the Disclosure Schedule.

2.16 Investments. Devon does not have any investments in, and has not made any advances to, any firms, persons or corporations, other than investments in marketable debt or equity securities or bank certificates of deposit as set forth in Exhibit K and its investments in and advancements to its subsidiaries and other than total advances not exceeding \$2,000 for any one person or \$10,000 in the aggregate.

2.17 Powers of Attorney. There are no outstanding powers of attorney issued by Devon, except for normal custom brokerage transactions.

2.18 No Violation. Except as disclosed in the aforementioned Disclosure Schedule, the consummation of the acquisition will not violate or result in a breach of or constitute a default under (1) any provision or restriction of any charter, By-Law, loan, indenture or mortgage of Devon or any of its subsidiaries, or (2) any provision or restriction of any lien, lease, material agreement not involving the sale and/or purchase of goods or services in the ordinary course of business, order, judgment, award, decree, ordinance or regulation or any other restriction of any kind or character to which any property of Devon or any of its subsidiaries is subject or by which Devon or any of its subsidiaries is bound other than breaches or defaults under loan agreements referred to in the financial statements mentioned in Sections 2.3 and 2.4 above (including the notes thereto), which will have been waived or consented to by the lenders, and other than provisions requiring consent of another party for a successor corporation to become a party thereto, which consents will have been obtained or will have been waived by INTERCO by the time said acquisition is consummated.

2.19 Compliance With Law. Except as disclosed or as referred to in the financial statements mentioned in Sections 2.3 and 2.4 above (including the notes thereto), or in the Disclosure Schedule referred to above, neither Devon nor any of its subsidiaries is in violation of any applicable laws, executive orders, rules, regulations or requirements of any governmental authority in any way relating to its business, including but not limited to, employment matters under the Civil Rights Act and Fair Labor Standards Act, pricing and wage matters under the Economic Stabilization Act of 1970, as amended, and labelling under the Flammable Fabrics Act, and, except as aforesaid, they are, and will be at Closing, in compliance with all presently and then applicable laws, executive orders, rules, regulations and requirements of all governmental authorities.

2.20 Brokerage, Investment Advisor, and Finder Fees. Devon has not employed any broker, investment advisor, or finder to whom a fee is payable in connection with this transaction except Bache & Co. Incorporated and Financo, Inc.

ARTICLE III

INDEMNIFICATION

3.1 Representations and Warranties of Warranting Shareholders. All statements made by the Warranting Shareholders and/or Devon contained herein and/or in any certificate or other instrument delivered at the Closing by or on behalf of the Warranting Shareholders and/or Devon pursuant thereto, and in connection with the transactions contemplated hereby, shall be deemed representations and warranties by the Warranting Shareholders contained herein in addition to those set forth in Article II, and INTERCO shall be entitled to rely upon same. The Warranting Shareholders agree to certify to the aforesaid representations and warranties at the time of Closing and all representations and warranties shall survive the Closing Date (for the claim period(s) provided in Section 3.2 hereof) and any investigation made by or on behalf of INTERCO. The Warranting Shareholders jointly and severally agree, but with liability limited as to each Warranting Shareholder to the entire number of shares of INTERCO stock received by such Warranting Shareholder at Closing for losses claimed within the first eighteen (18) months from the Closing Date and fifty percent (50%) of that number of shares thereafter, to indemnify and reimburse INTERCO and/or any of its subsidiaries from and for any loss, liability or expenses arising out of breach of the representations, warranties and

agreements contained herein, which are made by the Warranting Shareholders, and the foregoing is the sole and exclusive remedy of INTERCO and/or any of its subsidiaries for any such breach. The Warranting Shareholders shall have the option to pay cash in lieu of transferring shares of INTERCO stock to satisfy any of their liabilities hereunder. Any shares of INTERCO stock transferred to satisfy any liability hereunder shall be valued, for such purpose, at the higher of \$36.50 per share or the last sale price for INTERCO Common Stock on the New York Stock Exchange immediately prior to such transfer. If any claim is brought by INTERCO or any of its subsidiaries against either or both of the Warranting Shareholders arising out of this Agreement or the transactions contemplated hereby, and such Warranting Shareholder is determined by the final, unappealable judgment of a court to not be liable to INTERCO with respect to such claim, INTERCO shall reimburse the Warranting Shareholders for all reasonable expenses (including attorney's fees and costs) incurred by the Warranting Shareholders in the defense of such claim.

3.2 Limitation. Notwithstanding anything to the contrary contained herein, the Warranting Shareholders shall not be liable for the first \$100,000 (after tax), in excess of the applicable reserves, of the aggregate net loss, liability and expense suffered by INTERCO and/or any of its subsidiaries by reason of any breach of any of the aforesaid warranties and representations. Also, any indemnification by the Warranting Shareholders shall be limited to losses claimed by written notice to them within three (3) years from the Closing Date except with respect to losses resulting from accounts receivable and inventories which shall be claimed by written notice within eighteen (18) months and except for tax deficiencies in which case the claim period within which written notice must be received shall extend until the applicable Statute of Limitation expires (excluding any extension of the original period of limitations without the prior written consent of the Warranting Shareholders). Notwithstanding the foregoing, no claim shall be made against the estate of a Warranting Shareholder who has died, or against his heirs or beneficiaries, after the final distribution of substantially all the assets of the estate. It is understood that any loss collectible hereunder shall be net loss after due allowance for insurance, offsetting income or assets resulting from the same transaction, tax benefits of such losses and similar beneficial adjustments.

3.3 Notice. Whenever INTERCO shall learn of a claim against it and/or any of its subsidiaries which, if allowed (whether by voluntary payment, by settlement or compromise, or by judicial or quasi-judicial decision), would constitute a breach giving rise to a right of indemnification from the Warranting Shareholders hereunder, before paying the same or agreeing thereto, INTERCO shall promptly notify the Warranting Shareholders in writing of the facts within its knowledge with respect to such claim and amount thereof. If, prior to the expiration of thirty days from the mailing of such notice, the Warranting Shareholders shall request in writing that such claim not be paid, the same shall not be paid, and the Warranting Shareholders shall, upon behalf of INTERCO and/or any of its subsidiaries, settle, compromise or litigate in good faith such claim, employ either their own attorneys or INTERCO's attorneys (subject to control by the Warranting Shareholders) to do so; provided, however, that INTERCO shall not be required to refrain from paying any claim which has matured by court judgment or decree, unless appeal is taken therefrom and proper appeal bond posted by the Warranting Shareholders, nor shall it be required to refrain from paying any claim where such action would result in the foreclosure of a lien upon any of the property or assets then held by INTERCO or any of its subsidiaries, or a default in a lease or other contract except a lease or other contract which is the subject of the dispute. If the Warranting Shareholders elect to settle, compromise or litigate such claim, all reasonable expenses, including (but not limited to) all amounts paid in settlement or to satisfy judgments or awards and attorney's fees and costs, incurred by the Warranting Shareholders in settling, compromising or litigating such claim shall be promptly paid by INTERCO or promptly reimbursed to the Warranting Shareholders by INTERCO to the extent of any unused balance of the \$100,000 (after tax) threshold of liability provided for in Section 3.2 hereof, and all other expenses of settling, compromising or litigating such claim shall be paid by the Warranting Shareholders. INTERCO shall cooperate fully to make available to the Warranting Shareholders all pertinent information under its control.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF INTERCO

INTERCO represents and warrants (which representations and warranties shall be true in all material respects and shall survive the Closing Date) that:

4.1 Authority and Incorporation. INTERCO is a corporation duly organized and existing and in good standing under the laws of the State of Delaware and is qualified to do business in, and is in good standing in, all states where it is required to do so. INTERCO has full corporate power to carry on its businesses and to own and operate the properties and assets now owned and operated by it.

4.2 INTERCO Common Stock. All of the shares of INTERCO Common Stock outstanding on the date thereof are, and all of the shares of INTERCO Common Stock outstanding immediately after the Closing Date, will be duly authorized, validly issued, fully paid and nonassessable, and duly listed on the New York Stock Exchange.

4.3 Status of Shares Issued on Conversion. The shares of INTERCO stock to be delivered pursuant to this transaction will, when so delivered, be validly issued and outstanding, fully paid and nonassessable.

4.4 Financial Statements. The financial statements contained in INTERCO's Form 10-K for the fiscal year ended February 28, 1973 including the related schedules and notes, a copy of which report has been delivered to Devon, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, and fairly present the financial position, results of operations and changes in financial position of INTERCO and its subsidiaries as of said dates and for the periods indicated in conformity with generally accepted accounting principles consistently applied.

4.5 No violation. The consummation of the acquisition will not violate or result in a breach of or constitute a default under (1) any provision or restriction of any charter, By-Law, loan, indenture or mortgage of INTERCO or any of its subsidiaries, or (2) any provision or restriction of any lien, lease, agreement, contract, instrument, order, judgment, award, decree, ordinance or regulation or any other restriction of any kind or character to which any property of INTERCO or any of its subsidiaries is subject or by which INTERCO or any of its subsidiaries is bound.

4.6 Authorization of Merger. Neither the execution of this Agreement nor the consummation of the transaction herein provided requires approval of the holders of any class of INTERCO capital stock.

4.7 Brokerage, Investment Advisor, and Finder Fees. INTERCO has not employed any broker, investment advisor, or finder to whom a fee is payable in connection with this transaction.

4.8 Survival of Warranties. The representations and warranties of INTERCO set forth herein shall be true on and as of the Closing Date as though such representations and warranties were also made at that time, and shall survive the Closing Date and any investigation by or on behalf of the Warranting Shareholders and/or Devon.

ARTICLE V
RESTRICTIONS PENDING CONSUMMATION OR
TERMINATION OF TRANSACTION

5.1 Restriction on Operations. During the period from the date hereof to the date of consummating the merger provided for herein or until the transactions with regard thereto have been terminated, Devon and the Warranting Shareholders will take such action as may be necessary to insure

that Devon shall conduct its operations according to its ordinary and usual course of business, which said company is hereby authorized to do, and shall maintain its records and books of account in a manner that fairly and correctly reflects its income, expenses, assets and liabilities in accordance with generally accepted accounting principles consistently applied. During the period Devon shall not, and the Warranting Shareholders will take such action as may be necessary to insure that Devon will not, without the written consent of INTERCO, which consent shall not be unreasonably withheld:

(a) Pay or incur any obligation or liability absolute or contingent, other than (i) matured obligations and liabilities set forth on the said September 28, 1973 balance sheet, (ii) liabilities matured or incurred after September 28, 1973, in the ordinary course of business, (iii) liabilities disclosed in the Disclosure Schedule or in any of the exhibits hereto, (iv) non-material liabilities or obligations, or (v) as otherwise permitted by the terms of this Agreement.

(b) Other than in the ordinary and usual course of business, incur or guarantee any indebtedness for borrowed money, assume or endorse or otherwise as an accommodation become responsible for obligations of any other individual, firm or corporation, or make loans or advances to any individual, firm or corporation.

(c) Declare or pay any dividends or make any payment or distribution to shareholders as such or purchase or otherwise acquire for value any of its outstanding capital stock, except that a regular dividend of \$.05 per share and a special dividend of \$.03 per share may be declared and paid prior to the Closing Date.

(d) Mortgage, pledge or voluntarily subject to lien or other encumbrance any of its properties or assets and shall promptly notify INTERCO in writing of any other lien or encumbrance created against any of its properties or assets.

(e) Other than in the ordinary and usual course of business, sell or transfer any of its properties or assets or cancel, release or assign any indebtedness owed to them.

(f) Other than in the ordinary and usual course of business and except pursuant to contracts for the purchase of capital assets already entered into, make any investment of a capital nature (except in a Devon subsidiary) either by the purchase of stock or securities, by contributions to capital of any firm or corporation or by property transfers or otherwise, or purchase any material amount of property or assets of any other individual, firm or corporation (except a Devon subsidiary).

(g) Except in the ordinary course of business: enter into any agreement not subject to termination on notice of sixty (60) days or less, except as provided in paragraph (h) below, any contract for the purchase or sale of any materials, products or supplies, any management or consultation agreement, any lease, license, royalty or union agreement, or any other agreement not in the usual and ordinary course of business; or make any material change in its insurance or advertising.

(h) Increase in any manner the compensation of its officers or executive employees other than normal salary increases and bonuses; commit themselves to any additional pension, retirement, or profit-sharing plan or agreement with or for the benefit of any officer, employee or other person; or commit itself to any employment agreement with any person which provides for a term of more than one (1) year.

(i) Issue, transfer, grant options to buy, or enter into agreements to sell, any authorized but unissued shares of Devon or treasury shares of Devon, except Devon may issue an appropriate number of its shares upon the exercise of outstanding stock options.

(j) Enter into any material transaction not in the ordinary course of business.

(k) Discontinue operations of any facilities presently operated by Devon or make any extraordinary sales or purchases of merchandise or conduct business other than in the ordinary course of business.

ARTICLE VI

INVESTIGATION BY INTERCO

6.1 Access to Records. During the period from the date of this Agreement to the Closing Date, INTERCO and its representatives shall be given free access to the offices, records, files, stock books and minute books, books of account and copies of tax returns of Devon for the purpose of conducting an investigation of its financial condition, corporate status, liabilities, contracts, business operations, property and title thereto, litigation, patents, trademarks, copyrights and all other matters relating to its businesses, properties and assets; provided, however, that such investigation shall be conducted in a manner that does not unreasonably interfere with its normal operations and employee relationships. Devon shall cause its personnel to assist INTERCO in making such investigation and to make its counsel, accountants, employees and other representatives available for such purposes. During such investigation, INTERCO shall have the right to make copies of such records, files, tax returns and other materials as it may deem advisable.

6.2 Return of Documents. If the merger is not consummated, each party shall treat all information obtained in such investigation, and not otherwise known to said party or already in the public domain, as confidential and INTERCO shall return to Devon all papers and records furnished pursuant hereto, and all copies made by it of material belonging to Devon. This latter undertaking with respect to nondisclosure of confidential information is of the essence and will survive any termination of the contemplated transaction.

ARTICLE VII

CONDITIONS OF AGREEMENT

This Agreement is made expressly contingent upon satisfaction of the following conditions:

7.1 Approvals. Such approvals as may reasonably be required by counsel for INTERCO and counsel for Devon.

7.2 Legal Assurances. Satisfactory assurance as to legal matters, including legal opinions, if deemed appropriate, at the request of either of the parties.

7.3 Tax Matters. Satisfactory assurance as to tax matters, including legal opinions if deemed appropriate.

7.4 Pooling of Interests. A written confirmation from INTERCO's auditing firm, Peat, Marwick, Mitchell & Co., that the proposed transaction qualifies for a "pooling of interests" and the acceptance of such accounting treatment by the New York Stock Exchange.

7.5 Employment Agreements. Execution of Employment Agreements with William Forman and Stanley Matzkin, which agreements shall provide for non-competition for a three (3) year period upon termination of said employment.

7.6 No Adverse Change. No material adverse change shall have taken place in the status of Devon and/or INTERCO, which change, at the time the merger described herein is to be consummated, would make it inadvisable or impractical, in the sole opinion of the Board of Directors of INTERCO and/or the Board of Directors of Devon, for the transaction to be consummated.

7.7 Absence of Litigation. No suit, action or other proceeding or investigation shall be threatened or pending before any court or governmental agency (i) to restrain or prohibit, or to obtain damages or other relief in connection with, this Agreement, or the consummation of the transactions contemplated hereby, or (ii) on account of any matter or for any claim against Devon not disclosed herein or in the Exhibits hereto and which, in the reasonable judgment of INTERCO, may adversely affect the business or financial condition of Devon.

ARTICLE VIII
PAYMENT OF EXPENSES

8.1 **Payment of Fees and Expenses.** Each corporate party to this Agreement, i.e., INTERCO being one party and Devon being the other party, shall promptly pay the costs and expenses incurred at any time prior to or after the Closing Date by it or by others and properly allocable to it in connection with conducting the negotiations leading to this transaction or performing or otherwise carrying out the provisions of this transaction.

ARTICLE IX
SECURITIES ACT OF 1933

9.1 **Registration Required; Preparation, Filing and Effectiveness of Registration Statement.** INTERCO and Devon acknowledge that the transactions contemplated hereby are subject to the provisions of the Securities Act of 1933, as amended (the "Act") and Rule 145 thereunder. INTERCO agrees to prepare promptly and file a registration statement (the "Registration Statement") under and pursuant to the provisions of the Act for the purposes of registering the shares of INTERCO Common Stock to be issued in connection with the transactions contemplated hereby. Devon agrees to provide promptly to INTERCO information concerning the business and financial condition and affairs of Devon as may be required or appropriate for inclusion in the Registration Statement and to cause its counsel and auditors to cooperate with INTERCO's counsel and auditors in the preparation of such Registration Statement. INTERCO and Devon agree to use their respective best efforts to have such Registration Statement declared effective under the Act as soon as may be practicable and to distribute the prospectus contained in such Registration Statement (the "Prospectus") to the shareholders of Devon not less than twenty (20) days prior to the date upon which this Agreement, the Plan of Merger and the transactions contemplated hereby are submitted to the shareholders of Devon for approval and adoption. Devon agrees to postpone the special meeting of its shareholders in the event that the twenty (20) day requirement would not be fulfilled. Except to the extent permitted by Rule 145(b), INTERCO and Devon agree not to publish any communication, other than the Registration Statement or notice and proxy material accompanied by the Prospectus, in respect of this Agreement, the Plan of Merger or the transactions contemplated hereby, INTERCO shall not be required to maintain the effectiveness of the Registration Statement or the Prospectus for the purpose of resale by the Affiliates of Devon, as such term is used in Rule 145. The certificate or certificates representing shares of Common Stock issued to Affiliates may bear a restrictive legend, in substantially the following form, prohibiting sale or transfer except as contemplated herein and the Registration Statement:

"The shares represented by this certificate have been issued or transferred to the registered holder as a result of a transaction to which Rule 145 under the Securities Act of 1933, as amended (the "Act") applies. The shares represented by this certificate may not be sold, transferred or assigned, and the issuer shall not be required to give effect to any attempted sale, transfer or assignment, except (i) pursuant to current registration under the Act, (ii) a transaction permitted by Rule 145 and as to which the issuer has received reasonably satisfactory evidence of compliance with the provisions of Rule 145 or (iii) a transaction which, in the opinion of counsel satisfactory to the issuer or as described in a "no action" or interpretive letter from the staff of the Securities and Exchange Commission, is not required to be registered under the Act."

Should the aforesaid opinion under (iii) above indicate that the legend and stop-transfer orders may be removed, INTERCO will substitute unlegended certificates and remove any stop-transfer orders from the certificates in question. Certificates representing shares of the INTERCO Common Stock issued to Devon shareholders other than Affiliates will not bear the foregoing legend.

9.2 Registration Rights of Affiliates. In the event that one or more Affiliates of Devon, as such term is used in Rule 145, should desire to effect sales of shares of INTERCO Common Stock received as a result of the transactions contemplated hereby other than pursuant to the provisions of Rule 145 or in the event that Rule 145 is not available for resales, INTERCO agrees that said shares may be sold and that INTERCO will, at any time, and from time to time after the Closing Date upon request of one or more Affiliates of Devon, use its best efforts to cause the shares proposed to be sold to be promptly registered on Form S-16, if available, under the Act, subject to the following terms, conditions and understandings:

(i) The Affiliate or Affiliates desiring to sell in a registered offering (the "Selling Shareholders") shall make a written request to INTERCO for the registration of shares of INTERCO Common Stock, specifying the number of shares to be registered (which number shall be greater than the amount which could then be sold under Rule 145) and the names of the Selling Shareholders. INTERCO shall then use its best efforts to promptly register said shares under said Form S-16, if available, and under any applicable state security laws, and to keep such registration statement effective for a period of at least ninety (90) days; provided, however, that INTERCO shall not be required to file more than one such registration during each calendar year. In the event by reason of piggyback rights of others, the number of shares involved in said proposed registration increases 100% or more, INTERCO shall have the right to determine that said public offering should be underwritten and INTERCO may, at its option, control the manner of said underwriting, but such control shall not unreasonably interfere with said offering and shall not adversely affect the interest of the Selling Shareholders of Devon or prejudice their right to withdraw their registration request. Should said Form S-16 not be available for said registration, INTERCO shall use its best efforts to promptly register said shares under another registration form permitting comparable public sales (e.g. Form S-1 or S-7) and under any applicable state security laws, and keep such registration statement effective for a period of at least nine (9) months, provided same can be done by stickering the prospectus for any required change, but said registration shall in any case be effective for at least six (6) months; provided, however, that INTERCO shall not be required to file more than one such registration statement within five (5) years after Closing Date. Notwithstanding the foregoing, if the Affiliates are not entitled to sell their said shares under Rule 145, or to require registration under Form S-16 for a consecutive period of six (6) months (whether such six (6) month period be during or after the aforesaid five (5) year period), they shall have the right to request at any time during said disability that INTERCO use its best efforts to promptly register their shares under an applicable Form permitting public sales (e.g. Forms S-16, S-1, or S-7) and under any applicable state securities laws and INTERCO shall do so, and such registration shall be in addition to the registration right set forth in the preceding sentence and kept in effect for the same period of time. In connection with any registration of shares under this Section 9.2 (i) and/or (ii), except for filing fees, transfer taxes, underwriter's fees and expenses, and the fees of any counsel to the Selling Shareholders, all of which shall be borne by the Selling Shareholders, INTERCO shall bear all other expenses, including but not limited to, accounting fees, counsel fees and printing expenses. INTERCO will promptly deregister any of said shares upon appropriate request of said Selling Shareholders.

(ii) In addition to the foregoing, during a period of five (5) years after the Closing Date, the Affiliate or Affiliates of Devon who receive INTERCO Common Stock upon the consummation of the merger shall be entitled to piggyback rights on any and all INTERCO registrations of securities under the Securities Act of 1933 and under any applicable state security laws (except registration of any stock offered or to be offered to employees of INTERCO or its subsidiaries or registrations pertaining to stock used or to be used in acquisitions). INTERCO will, prior to any such registration, give the aforesaid Affiliate or Affiliates written notice of its intention, indicating the approximate time when it is anticipated that the registration will be filed. If within fifteen (15) days after the giving of such notice, INTERCO shall have received written notice

from one or more of the aforesaid Affiliates (a) stating that they desire to sell a number of shares in excess of that permitted by Rule 145, (b) requesting that such shares be included in the registration, and (c) agreeing to furnish promptly upon request information in reasonable detail as to the method of disposition of such shares, also the net consideration, after all commissions, discounts, costs and expenses, which such of the shareholders, their successors or assigns, expect to receive upon such disposition, INTERCO shall include such shares in the registration statement and use its best efforts to cause such registration statement to promptly become effective. INTERCO also agrees to use its best efforts, if such shareholders have so requested in their said notices, to include, if such inclusion is practicable in the opinion of the underwriter and the INTERCO Board of Directors, such shares in any arrangements made for the underwriting or other distribution plans made for other securities of the same class being offered pursuant to said registration statement. INTERCO shall control the manner of said public offering but such control shall not unreasonably interfere with said offering and shall not adversely affect the interests of the Selling Shareholders or prejudice their right to withdraw their registration request. All filing fees and underwriter's fees and expenses to be paid by the Selling Shareholders as provided in Section 9.2(i) above shall, as between the persons whose shares are being registered, be borne pro rata to the number of shares so registered.

(iii) In connection with any registration under federal and state securities laws referred to in this Section 9.2, INTERCO will indemnify and hold harmless the Selling Shareholders, and each other person, if any, who controls any of the Selling Shareholders within the meaning of the Securities Act of 1933, against any losses, claims, damages or liabilities, joint or several, to which such Selling Shareholders or controlling persons become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement or final prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse such Selling Shareholders and controlling persons for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such losses, claims, damages, liabilities or actions; provided, however, that INTERCO will not be liable in any such case to the extent that any such losses, claims, damages, or liabilities arising out of or based upon untrue statement or alleged untrue statement or omission or alleged omission made in any such registration statement, or such prospectus or amendment or supplement, in reliance upon and in conformity with written information furnished by the person seeking the indemnity for use in the preparation thereof. Likewise, in connection with any registration under federal and state securities laws referred to in this Section 9.2, the Selling Shareholders will indemnify and hold harmless INTERCO, and each other person (if any) who controls INTERCO within the meaning of the Securities Act of 1933, against any losses, claims, damages or liabilities, joint or several, to which INTERCO or controlling persons become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement or final prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse INTERCO and such controlling persons for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such losses, claims, damages, liabilities or actions; in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement or such prospectus or amendment or supplement, in reliance upon and in conformity with written information furnished to INTERCO by the person against whom indemnity is sought for use in the preparation thereof.

(iv) All references herein to Form S-16, S-7 and S-1 refer also to any other comparable registration statement which might be substituted for such forms in the future. All references herein to Rule 145 refer also to any rule which might be submitted for Rule 145 in the future and provides for comparable public sale by Affiliates of Devon.

9.3 Contribution Rights; Violations of Federal or State Securities Laws.

(i) INTERCO and its directors agree not to seek damages and/or contribution from Devon or any director or officer of Devon, or any Warranting Shareholder, in connection with any loss and/or liability INTERCO and/or its directors may incur arising directly or indirectly out of any material misstatement concerning INTERCO or material omission concerning INTERCO contained in the Form S-14 Registration Statement referred to in Section 9.1 hereof. Devon, its directors and the Warranting Shareholders agree not to seek damages and/or contribution from INTERCO, or any director or officer of INTERCO, in connection with any loss and/or liability Devon, its directors and such Warranting Shareholders may incur arising directly or indirectly out of any material misstatement concerning Devon or material omission concerning Devon contained in the Form S-14 Registration Statement referred to in Section 9.1 hereof.

(ii) Any liability to INTERCO of any director or officer of Devon or any Affiliate of Devon, or of any other person (if any) who controls such director, officer or Affiliate within the meaning of the Securities Act of 1933, arising directly or indirectly out of any violation of federal or state securities laws in connection with the Agreement or the transactions contemplated hereby (including the filing of the Form S-14 Registration Statement) or arising from any damages and/or contribution rights of INTERCO not waived by INTERCO in Section 9.3(i), shall be limited to the shares of INTERCO stock received at Closing by such director, officer, Affiliate or control person and, if the Warranting Shareholders are liable, shall be subject to the \$100,000 (after tax) threshold of liability provided in Section 3.2 hereof.

(iii) The warranties and representations of the Warranting Shareholders contained in Sections 2.18 and 2.19 hereof and the warranty and representation of INTERCO contained in Section 4.5 hereof shall not apply to the Form S-14 Registration Statement referred to in Section 9.1 hereof or to violations of law, rules or regulations arising therefrom (including, without limitation, the filing under the Securities Act of 1933 of such Form S-14).

ARTICLE X

DELIVERY OF DOCUMENTS

10.1 Closing Documents. Each party will deliver or cause to be delivered such documents, instruments, stock certificates, stock powers, opinions of counsel, certifications, notices and further assurances as counsel for the respective parties may reasonably require as necessary or desirable in connection with the consummation of the transactions provided for under this Agreement.

10.2 Further Documents. After the Closing, each party hereto shall, at the request of any other, furnish, execute and deliver such documents, instruments, opinions of counsel, certificates, notices or other further assurances as counsel for the requesting party shall reasonably require as necessary or desirable for effecting complete consummation of this Agreement.

ARTICLE XI

TERMINATION

This Agreement may be terminated under any of the following circumstances by notice sent (except as otherwise stated) on or before the Closing Date:

11.1 INTERCO Rights. INTERCO shall have the right to terminate if during the period from the date hereof to the Closing Date any of the following occur:

(i) If Devon shall suffer any loss from fire, flood, explosion or other casualty which substantially adversely affects the conduct of its business or the value of its assets.

(ii) INTERCO shall learn of any material fact or condition with respect to the business, properties or assets of Devon, which is substantially at variance adversely with one or more of the warranties or representations as set forth in this Agreement.

(iii) Any material adverse change shall have taken place in the status of INTERCO or Devon, which change, at the time of Closing, would make it inadvisable or impractical, in the opinion of the INTERCO Board of Directors, to consummate the merger.

(iv) If Devon shall have taken any action contrary to any one or more of the prohibitions set forth in Article V of this Agreement.

(v) INTERCO shall not have received on or before the Closing Date all such approvals as may reasonably be required by counsel for INTERCO.

(vi) INTERCO shall not have received the opinions of Peat, Marwick, Mitchell & Co. and the New York Stock Exchange that the merger qualifies for "pooling of interest" treatment.

(vii) The shares of INTERCO Common Stock to be issued hereunder are not accepted for listing by the New York Stock Exchange; however, INTERCO will use its best efforts to obtain such listing.

(viii) Any of the conditions of this Agreement set forth in Article VII hereof are not satisfied.

11.2 Devon Rights. Devon shall have the right to terminate if during the period from the date hereof to Closing any of the following shall occur:

(i) INTERCO shall suffer any loss from fire, flood, explosion, or other casualty which substantially adversely affects the conduct of its business or the value of its assets.

(ii) Devon shall learn of any material fact or condition with respect to the business, properties or assets of INTERCO which is substantially at adverse variance from one or more of the warranties or representations as set forth in this Agreement.

(iii) Any material adverse change shall have taken place in the status of INTERCO or Devon, which change, at the time of Closing, would make it inadvisable or impractical, in the opinion of the Board of Directors of Devon to consummate the merger.

(iv) Devon shall not have received on or before Closing all such approvals as may reasonably be required by counsel for Devon.

(v) The shares of INTERCO Common Stock to be issued hereunder are not accepted for listing by the New York Stock Exchange.

(vi) Any of the conditions of this Agreement set forth in Article VII hereof are not satisfied.

11.3 Additional Rights. Anything herein or elsewhere to the contrary notwithstanding, this Agreement may be terminated and abandoned by mutual consent of the Boards of Directors of the corporate parties hereto prior to the effective date of the merger, even after Devon shareholder approval has been obtained. Also, any party may terminate this Agreement, if such party is informed and in good faith believes that litigation may be instituted by a governmental agency, which, if successful, would preclude such transaction.

11.4 Effect of Termination. If this Agreement shall not be consummated either because it is terminated pursuant to the terms thereof, or because of the inability of any parties by reason of causes beyond his or its control to carry out performance as contemplated by this Agreement, no party shall be liable to any other for any loss, damage, or expense, except for the confidential undertakings set forth in Article VI above.

ARTICLE XII

MISCELLANEOUS

12.1 Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly delivered if delivered in person or sent by first class registered or certified mail, return receipt requested, postage prepaid.

(a) If to any one or more of the Warranting Shareholders, to their address noted below their respective signature line, with a copy to Frederick D. Lipman, Esq., Four Penn Center Plaza, Philadelphia, Pennsylvania 19103.

(b) If to Devon, to the President, Devon Apparel, Inc., 3300 Frankford Avenue, Philadelphia, Pennsylvania 19134, with a copy to Frederick D. Lipman, Esq., Four Penn Center Plaza, Philadelphia, Pennsylvania 19103.

(c) If to INTERCO, to the Secretary, INTERCO INCORPORATED, Ten Broadway, St. Louis, Missouri 63102, with a copy to Ronald L. Aylward, Esq. at the same address.

The designation of the person to be so notified or the address of such person may be changed by similar written notice.

12.2 Devon Stock Options. The only outstanding stock options of Devon pertain to an aggregate of approximately 55,774 shares of Devon's Common Stock. Upon the effective date, INTERCO shall assume the unexercised qualified and non-qualified stock options, proportionately adjusting the price and the number of substituted INTERCO Common shares issuable upon the exercise of such options and permit those options which are qualified stock options to continue as such. No further options shall be granted, except with INTERCO's written consent.

12.3 Persons Bound. This Agreement shall be binding upon and shall inure to the benefit of the undersigned parties, the successors and assigns of the corporate parties hereto, and the executors, administrators, heirs, successors and assigns of the Warranting Shareholders.

12.4 Waiver or Amendment. Any of the provisions of this Agreement may be waived or amended at any time by the parties hereto, prior to or after the vote hereon of the stockholders of Devon, by agreement in writing approved by the Board of Directors of each corporate party and the Warranting Shareholders and executed in the same manner (but not necessarily by the same persons) as this Agreement, provided that any such waiver or amendment effected after the last vote of the stockholders of Devon hereon shall not, in the judgment of the Board of Directors of Devon, affect materially and adversely the benefits of Devon's stockholders intended under this Agreement, unless such waiver or amendment is subsequently approved by Devon's stockholders.

12.5 General Provisions. This Agreement may be executed simultaneously in several counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument. This Agreement constitutes the whole Agreement and expressly supersedes the Memorandum of Intent dated October 8, 1973, among the parties. It is understood and agreed that in entering into this Agreement, no party has relied on any oral representations, warranties, or information made or given by any party hereto, or his or its representatives.

INTERCO INCORPORATED

By W. L. EDWARDS, JR.
Senior Executive Vice President

INTERCO-PA Incorporated

By W. L. EDWARDS, JR.
President

Devon Apparel, Inc.

By WILLIAM FORMAN
President

Warranting Shareholders:

WILLIAM FORMAN

William Forman
1126 Coventry Road
Elkins Park, Pa.

STANLEY MATZKIN

Stanley Matzkin
115 Surrey Road
Melrose Park, Pa.

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER ("Agreement of Merger") made as of the 13th day of November, 1973 by and between INTERCO-PA Incorporated, a Delaware corporation ("PA Inc."), and Devon Apparel, Inc., a Pennsylvania corporation ("Devon"), such corporations being hereinafter sometimes collectively called the "Constituent Corporations";

WITNESSETH:

WHEREAS, PA Inc. is a corporation duly organized and existing under the laws of the State of Delaware, has its registered office in the State of Delaware at 229 South State Street in the City of Dover, County of Kent, and the name of its registered agent at such address is The Prentice-Hall Corporation System, Inc.; and

WHEREAS, PA Inc. has a capitalization consisting of 725,000 authorized shares of common stock, without par value, of which 725,000 shares are issued and outstanding; and

WHEREAS, Devon is a corporation duly organized and existing under the laws of the State of Pennsylvania, has its registered office in the State of Pennsylvania at 3300 Frankford Avenue in the City of Philadelphia, County of Philadelphia; and

WHEREAS, Devon has a capitalization consisting of 3,000,000 shares of Common Stock, \$.20 par value, of which 2,019,526 shares are issued and outstanding; and

WHEREAS, the respective Boards of Directors of PA Inc. and Devon deem it advisable for the mutual benefit of the Constituent Corporations and their respective stockholders that Devon be merged with and into PA Inc. pursuant to the General Corporation Law of Delaware, upon the terms and subject to the conditions hereinafter provided, and such Boards of Directors have approved and adopted this Agreement of Merger;

Now, THEREFORE, PA Inc. and Devon agree that pursuant to the applicable law of Delaware and subject to the terms and conditions hereinafter set forth, Devon shall be merged into PA Inc. and that the terms and conditions of such merger, including the mode of carrying the same into effect, shall be as follows:

1.1 The merger shall become effective upon the date ("Merger Date") of the filing of this Agreement of Merger with the office of the Secretary of State of Delaware whereupon Devon shall be merged into PA Inc. PA Inc. shall be the surviving corporation and it shall continue to be governed by the laws of the State of Delaware. PA Inc. as such surviving corporation is hereinafter sometimes referred to as the "Surviving Corporation." The Articles of Incorporation of PA Inc. will be amended so as to change the name of PA Inc. to Devon Apparel, Inc. immediately after the Agreement of Merger is effective.

ARTICLE II

2.1 From and after the Merger Date, the Certificate of Incorporation of PA Inc. as in effect immediately prior to the Merger Date shall continue in full force and effect as the Certificate of Incorporation of the Surviving Corporation until it shall thereafter be further amended in accordance with law. The Surviving Corporation reserves the right to amend, alter, change, or repeal after such merger any provision contained in its Certificate of Incorporation, and all rights conferred in this Agreement of Merger are subject to such reserved power.

2.2 The By-Laws of PA Inc. as in effect immediately prior to the Merger Date shall continue in full force and effect as the By-Laws of the Surviving Corporation until they shall thereafter be duly amended.

2.3 The directors of PA Inc. immediately prior to the Merger Date shall be the directors of the Surviving Corporation to hold such offices, subject to the By-Laws of the Surviving Corporation, until their successors are elected and qualified.

The officers of PA Inc. immediately prior to the Merger Date shall be the officers of the Surviving Corporation and shall hold office, subject to the By-Laws of the Surviving Corporation, at the pleasure of the Board of Directors.

2.4 Upon the Merger Date, the effect of the merger shall be as provided in the applicable provisions of the Delaware law. Without limiting the generality of the foregoing, and subject thereto, upon the Merger Date: the separate existence of Devon shall cease, and the Surviving Corporation shall possess all the rights, privileges, powers and franchises as well of a public as of a private nature, and shall be subject to all of the restrictions, disabilities and duties of Devon; and all and singular, the rights, privileges, powers and franchises of Devon and all property, real, personal and mixed, and all debts due to Devon on whatever account, as well as all other things in action or belonging to Devon shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the Constituent Corporations, and the title to any real estate vested by deed or otherwise in either of the Constituent Corporations shall not revert or be in any way impaired, but all rights of creditors and all liens upon any property of either of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities and duties of Devon shall thenceforth attach to the Surviving Corporation, and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it.

ARTICLE III

The manner and basis of converting the shares of each of the Constituent Corporations into shares or other securities of the Surviving Corporation shall be as follows:

3.1 The shares of common stock of PA Inc. outstanding on the Merger Date shall not be converted as a result of the merger and shall remain outstanding as shares of the Surviving Corporation.

3.2 Forthwith upon the Merger Date, the outstanding shares of the common stock of Devon shall be automatically converted into and become that number of shares of common stock of INTERCO INCORPORATED ("INTERCO"), parent company of PA Inc., which shares are owned by PA Inc., determined as follows: the mean average per share closing price of INTERCO Common Stock on the New York Stock Exchange for the fifteen (15) trading days preceding the calendar week in which the vote of the Devon shareholders is taken divided into \$24,000,000; provided, however, that in no case shall said number of INTERCO Common Stock be less than 600,000 shares nor more than 725,000 shares. The ratio of converting shares of Devon Common Stock into one share of INTERCO Common Stock shall be determined by dividing the aforesaid number of shares of INTERCO Common Stock by the total number of shares of Devon Common Stock outstanding. The term "closing price" shall refer to the last sale price and the term "trading days" shall refer to days on which there were any sales of INTERCO Common Stock on the New York Stock Exchange. Devon has no treasury shares.

3.3 From and after the Merger Date, the holders of certificates representing the common stock of Devon prior to the merger shall cease to have any rights with respect to such shares, and their sole rights (other than as explicitly set forth herein) shall be to receive the common stock of INTERCO into which their shares have been automatically converted pursuant to the merger as provided in this Article III. After the Merger Date each holder of an outstanding certificate or certificates theretofore representing common shares of Devon shall be entitled, upon surrender of the same (duly endorsed) to receive in exchange therefor a certificate or certificates representing the number of whole shares of common stock of INTERCO into which shares of Devon theretofore represented by the certificate or certificates so surrendered shall have been converted as aforesaid. No fractional

shares of common stock of INTERCO shall be issued on conversion of the common stock of Devon pursuant to this Agreement of Merger. In lieu of the issuance or recognition of fractional shares of INTERCO common stock or interests or rights therein, the Conversion Agent, Mercantile Trust Company N.A. shall pay to each former shareholder of Devon otherwise entitled to a fractional share of INTERCO common stock an amount in cash equal to the fair market value of any such fractional share of INTERCO common stock to which such shareholder would be entitled but for this provision. For purposes of such payment the fair market value shall be the same fraction of the last sale price of the INTERCO common stock on the New York Stock Exchange on the last day prior to the Closing Date on which any shares of INTERCO common stock were sold on such Exchange. Unless and until any such outstanding certificates for common stock of Devon shall be surrendered for conversion, no dividend or other distribution payable to holders of record of common stock of INTERCO at or after the Merger Date shall be paid to the holders of such outstanding certificates for common shares of Devon but upon surrender of such outstanding certificates as aforesaid there shall be paid to the record holder of the certificates for common stock of INTERCO delivered in exchange therefor the dividends and other distribution (without interest) that have theretofore become payable with respect to the common stock of INTERCO represented by said certificates delivered upon such surrender and exchange. Dividends and other distributions in respect of shares of INTERCO Common Stock held by the Conversion Agent for delivery upon presentation of non-surrendered Devon shares shall be held by the Conversion Agent for the account of such former shareholders of Devon.

3.4 All shares of common stock of INTERCO for which shares of common stock of Devon are exchanged pursuant hereto shall be deemed to be transferred in full satisfaction of all rights pertaining to such shares of Devon common stock, including any obligation of Devon or the Surviving Corporation to pay such dividends, if any, as may have been properly declared by Devon in respect of its common stock payable to shareholders of record as of a date prior to the Merger Date which remain unpaid at the Merger Date.

3.5 All shares of common stock of INTERCO, to be transferred in exchange for shares of common stock of Devon as above provided, shall be validly issued, fully paid and nonassessable.

ARTICLE IV

4.1 If the Agreement and Plan of Reorganization, dated as of November 13, 1973, executed by the parties hereto simultaneously herewith, is terminated, then this Agreement of Merger shall simultaneously terminate without further action by the Constituent Corporations. In the event of such termination the Board of Directors of each of the Constituent Corporations shall direct its officers not to file this Agreement of Merger as provided above notwithstanding favorable action on this Agreement of Merger by the stockholders of Devon.

ARTICLE V

5.1 This Agreement of Merger may be executed in any number of counterparts, each of which shall be deemed to be an original, but such counterparts together shall constitute one and the same instrument.

5.2 Any of the provisions of this Agreement of Merger may be waived or amended at any time by the parties hereto, prior to or after the vote hereon of the stockholders of Devon, by agreement in writing approved by the Board of Directors of each party and executed in the same manner (but not necessarily by the same persons) as this Agreement of Merger, provided that any such waiver or amendment effected after the last vote of the stockholders of Devon hereon shall not, in the judgment of the Board of Directors of Devon, affect materially and adversely the benefits of Devon's stockholders intended under this Agreement of Merger, unless such waiver or amendment is subsequently approved by Devon's stockholders.

IN WITNESS WHEREOF, PA Inc. and Devon have caused their respective corporate seals to be hereunto affixed and these presents to be signed by their respective officers thereunto duly authorized, all as of the day and year aforesaid.

INTERCO-PA Incorporated

By W. L. EDWARDS, JR.
W. L. Edwards, Jr., *President*

(Corporate Seal)

ATTEST:

RONALD L. AYLWARD
Ronald L. Aylward, *Secretary*

Devon Apparel, Inc.

By WILLIAM FORMAN
William Forman, *President*

(Corporate Seal)

ATTEST:

STANLEY MATZKIN
Stanley Matzkin, *Secretary*

